Report on IFRS Enforcement

29 October 2009 (Unofficial translation)

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1 Summary

This report presents the activities of the Financial Reporting Enforcement Division of the Financial Supervisory Authority (FIN-FSA) in the period from the end of 2008 to October 2009 and the enforcement observations made regarding corporate financial statements. FIN-FSA requires that the companies take the observed deficiencies and development needs presented both in this report and presented partially already repeatedly into account when preparing their financial statements for 2009.

Information on goodwill impairment testing not disclosed in all respects

Due to the financial crisis, the companies considered the outlook at the beginning of 2009 so uncertain that future prospects were not always even assessed. Nevertheless, the companies had to assess their future cash flows to enable testing the goodwill in the 2008 financial statements for impairment. Although the assessment of future prospects was difficult in the uncertain conditions, a surprisingly small amount of impairment losses had been recognised.

The purpose of a sensitivity analysis of the key assumptions in goodwill impairment testing is to describe what kind of change in the key assumptions concerning the recoverable amount, determined in the impairment testing, could lead to recognition of an impairment loss. One third of the companies had disclosed more sensitivity analysis information in the 2008 financial statements than in the preceding year. In spite of the extended information disclosed, not all companies had reported the amount by which the unit's or group of units' recoverable amount exceeds its carrying amount, the value assigned to the key assumption, and the amount by which the value assigned to the key assumption must change in order for the unit's or group of units' recoverable amount to be equal to its carrying amount. In addition, there is a need to improve the clarity and consistency of disclosing information.

Values and measurement techniques of discount rate components play an important role in impairment testing. Very few companies had disclosed information on the changes made in 2008 in their discount rates and related measurement techniques as compared to the previous year. Companies should ensure the comparability of the disclosed information and the understandability of the consequential effects of the changes from one year to another. In addition, the companies had not always updated discount rate components to reflect the present market situation. The discount rate must reflect the market assessments of the risks at the time of testing.

Efforts must be devoted to sensitivity analysis information disclosed on financial risks – inadequate information disclosed on covenants

Sensitivity analysis information disclosed on various market risks, such as interest rate, exchange rate, credit and price risks, must reveal the impact of changes occurred in various market risks on equity and profit or loss. The fulfilment of this demand often requires that a clear overall picture is provided of various markets risks and their underlying reasons. Reporting on credit risk was still modest, although the information on liquidity risk had clearly improved. On the whole, there is still a lot to improve on in the information disclosed according to IFRS 7 Financial instruments: Disclosures in the notes to the financial statements.

Companies' disclosures of sensitivity analysis information on market risks do not describe their exposure to hedged business risks. It is not enough to only describe the hedges and their sensitivity analyses. In addition, the extent of the hedged risk should be disclosed to ensure that readers can understand the assessed overall risk of the operations.

In their financial statements, the companies must disclose information on the basis of which the reader can assess the nature and extent of risks arising from financial instruments. This also covers information on covenants, because a possible breach of covenants in loan agreements may provide information on the company's liquidity or interest rate risks. Of all the listed companies, less than 10 reported that covenant terms had been breached in 2008. In most cases the reporting was inadequate, as only a few companies disclosed the effect of the breach of covenant terms. FIN-FSA's view is that more detailed information on the covenant terms must be disclosed in situations where a breach of the covenant limits is close.

Disclosed information must clearly describe judgement principles and limits applied by the company to its recognition of financial instrument impairment

A significant or prolonged decline in the fair value of an equity instrument within available-for-sale financial assets below its original cost is, in itself, objective evidence of impairment. Therefore an impairment loss is to be recognised. The European Enforcers Coordination Sessions (EECS) acting under the Committee of European Securities Regulators (CESR) has published enforcement decisions made by European enforcers on impairments of equity investments under available-for-sale financial assets. FIN-FSA finds it important that the companies particularly study these enforcement decisions and take them into account when preparing their financial statements for 2009.

Poor information disclosed on uncertainties related to going concern status

Information on uncertainties related to going concern status is important to the readers of financial statements. Only few companies had disclosed the factors linked to these uncertainties as a clearly separate part, and thus the overall picture of uncertainties related to going concern status might have remained unclear. On the basis of the information disclosed, readers should be able to understand that a company's ability to continue as a going concern is under threat and also understand the underlying reasons for the threat.

Business combinations, non-current assets held for sale and discontinued operations and provisions

Of the total cost of business combinations carried out in 2008, 53% was goodwill. According to FIN-FSA, this may be an indication that all of the acquiree's intangible assets are still not recognised separately from goodwill in business combinations. The large amount of goodwill may also be due to the fact that, at the acquisition date, the acquiree's intangible assets are too cautiously measured at fair value. This means that the fair values do not correspond to the actual market value. In connection with discontinued operations, FIN-FSA observed deficiencies in the disclosure of revenue, expenses and profit or loss. With regard to provisions, the information disclosed did not include a description of the nature of the obligation.

Basis for preparing interim financial reports partly unclear

FIN-FSA continued to observe deficiencies in the presentation of the basis for preparing the interim financial reports. In the interim financial reports for the first three and first nine months of the financial period, companies must clearly disclose that "The interim financial report is in compliance with standard IAS 34." (IAS 34.19, IAS 34 Interim Financial Reporting) or that "The interim financial report has been prepared in compliance with the recognition and measurement principles of the IFRSs but it does not comply with all the requirements of IAS 34." (Ministry of Finance Decree (MFD) 153/2007). In the interim financial report for the first six months, companies must disclose that "The interim financial report is in compliance with standard IAS 34." (IAS 34.19). Presentation of the basis for preparing the interim financial report is important as it enables the reader to assess what information is available in the interim financial report.

With regard to the presentation of corporate acquisitions, as defined in IFRS 3 Business Combinations, in interim financial reports, companies still have not reported in full compliance with the disclosure requirements (IAS 34.16(i)).

New requirements on segment information (IAS 34.16(g)(i)-(vi)) entered into force in the periods beginning on or after 1 January 2009. The requirements apply to companies that disclose segment information in their annual financial statements as required by standard IFRS 8 Operating Segments. More than half of the companies did not report total assets by segments (IAS 34.16(g)(iv)).

Enhancement of the enforcement process

Following the reorganisation of FIN-FSA, the Financial Reporting Enforcement Division has started to enhance its enforcement process. The enforcement technique as well as the efficiency and deadlines of requests for information are among the first areas to be improved. In order to enhance the enforcement process and increase transparency, the scope and the degree of detail of the requests for information will be increased, the deadlines granted to the companies will be standardised and the processing of the questions at FIN-FSA will be speeded up. In future, FIN-FSA will provide information more frequently

on the results of its enforcement efforts as well as surveys on current issues.

As a rule, companies will be given 1 to 3 weeks to respond to the requests for information, depending on the topic of the request. The Financial Reporting Enforcement Division considers this an adequate length of time if the requests for information concern documented historical information. In such cases, the companies already have sufficient documentation to support the accounting decisions made.

To enhance the enforcement process, FIN-FSA has already started to prepare the requests for information in more detail. Correspondingly, FIN-FSA expects the companies' responses to be more comprehensive than previously, including background material required for processing the issue.

FIN-FSA will continue to develop its enforcement process in 2010.

2 Enforcement activities

Focus of enforcement

Based on risk-based sampling[1], FIN-FSA monitored the entire financial statements of 15 companies. In addition, a large proportion of listed companies' financial statements 2008 were subject to thematic reviews based on focal areas. Financial statements of nearly 50 non-listed financial companies were reviewed. In the enforcement of prospectuses, FIN-FSA had by the date of this report analysed 16 prospectuses, in 2009, in terms of the IFRS information.

The enforcement of financial statements in the period 2008 continued to focus on the disclosure of financial instruments (IFRS 7 Financial Instruments: Disclosures) and goodwill impairment testing (IAS 36 Impairment of Assets). In connection with IFRS 7, FIN-FSA surveyed the disclosure of information on financial instruments by the above-mentioned (15) companies, selected by risk-based sampling. With regard to goodwill impairment testing, the survey focused on the financial statement information of 65 listed companies, based on which enforcement was focused on a couple of companies. The survey focused particularly on the companies' disclosure of sensitivity analysis information, discount rate and long-term growth rate values and the time of testing[2]. The other focal areas concerning the 2008 financial statements were information disclosed on going concern (IAS 1 Presentation of Financial Statements), the recognition and disclosure of non-current assets held for sale and discontinued operations (IFRS 5 Non-current Assets Held for Sale and Discontinued Operations) and provisions (IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

In 2008, FIN-FSA sent a total of 56 requests for information to companies. In the first ten months of 2009, FIN-FSA sent a total of 22 requests for information. Based on the

1 FIN-FSA's enforcement methods are described in Appendix 1.

2 In early 2009, FIN-FSA surveyed the information on goodwill impairment testing disclosed in the 2007 and 2008 financial statements. Markkinat publication 2/2009: Talouden näkymien heikentyessä liikearvon arvonalentumistestaus tehtävä tarvittaessa useammin (Due to the weakening economic outlook, goodwill impairment testing should be performet more frequently if necessary.

completed responses to the requests for information, the companies committed to taking FIN-FSA's observations into account when preparing their financial statements for 2009. Some of the accounting issues are still being processed.

Other surveys on financial statements

FIN-FSA conducted a separate survey on listed companies' IFRS reporting in the condensed section of tables of interim financial reports for the first and second quarter of 2009. FIN-FSA also reviewed the listed companies' total cost of business combinations and the allocation of the total cost of the combinations to the acquiree's net assets and liabilities (IFRS 3 Business Combinations).

Enforcement of prospectuses

In the approval of prospectuses, the main focus is on the consistency of IFRS information presented in a company's prospectus and, on the other hand, in its financial reports. In the review of IFRS information within the framework of the enforcement of prospectuses, FIN-FSA examines the most significant risks specific to a company and transaction as well as sector and operating environment, and their impact on IFRS reporting and contents of the prospectus. However, some of the accounting issues may be by nature such that a proper solution is possible only in connection with ex-post enforcement of financial statements. Thereby the approval of the prospectus does not prevent FIN-FSA from subsequently selecting the financial statements included in the prospectus or other company financial information for enforcement at a later stage. A thorough processing and documentation of accounting issues as part of a company's financial reporting facilitate the processing of the issues concerning the application of IFRSs in connection with the approval of prospectuses.

By the date of publication, FIN-FSA has enforced the IFRS information of 16 prospectuses, in 2009. In 2008, FIN-FSA reviewed a total of 23 prospectuses.

The significant accounting issues that rose in connection with the enforcement of prospectuses mainly concerned the recognition of corporate restructuring (IFRS 3) and standards on consolidated financial statements (IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures). FIN-FSA also paid particular attention to the application of a company's key accounting policies, their adequate and clear description and the description of risks attributable to financial instruments. The recent uncertain market situation has underlined the importance of key accounting policies, variables used in the measurement of financial instruments, financial risks and the principles of risk management in the prospectus information.

International working groups as part of enforcement activities

The meetings of the European Enforcers Coordination Sessions (EECS) handle questions concerning IFRS application, in terms of technical solutions and enforcement actions. By the date of this report, FIN-FSA has brought up 6 financial reporting issues concerning business combinations, strategic equity investments and impairment testing for EECS discussion in 2009. By the date of this report, the EECS database of enforcement decisions includes nearly 250 decisions, over 70 of which have been published. The sixth extract of enforcement decisions was published on 26 August 2009[3].

The CESR-Fin[4] working group, whose role is to comment on the development of IFRSs, has had 6 meetings within the past 12 months. The working group has, from the perspective of securities regulators, addressed written

3 6th extract from EECS database of enforcement decisions (CESR ref. 09-720), http://www.cesr.eu/index.php?page=groups&mac=0&id=58

4 Committee of European Securities Regulators (CESR), Committee of Financial Reporting (CESR-Fin).

5 Statement on the application of and disclosures related to the reclassification of financial instruments (Ref. CESR/ 09-575), CESR statement on the reclassification of financial instruments and other related issues (Ref. CESR/08-937), CESR statement - Fair value measurement and related disclosures of financial instruments in illiquid markets (Ref. CESR/08-713b).

comments to the European Financial Reporting Advisory Group (EFRAG) on, for example, proposals to revise the standard on financial instruments, proposals concerning fair value measurement and leases. The working group has also sent written comments to the International Accounting Standards Board (IASB) on the revision of financial reporting regulation on income recognition.

CESR-Fin's Fair value working group was established in 2008 as a result of the market disruption. The group has participated in global discussions on the impact of the market crisis on financial reporting and on problems concerning fair value measurement in illiquid markets. The working group also organised a review of financial companies' financial statements as a joint European-level exercise, together with national enforcers. Finnish companies were also included in the sample. CESR has published several reports based on the results achieved by the working group[5]. In the reports, CESR draws the attention of financial companies, in particular, to the appropriate application of the IFRSs and to the disclosure of information required by the IFRSs. According to CESR, compliance with disclosure requirements is surprisingly poor. The latest report on compliance with standard IFRS 7 will be published in October-November 2009.

3 Information on goodwill impairment testing must be IFRS compatible, consistent and clear

In the 2008 financial statements, the impairment losses recognised on goodwill amounted to EUR 853 million. They were on average 3% (within a range of 0–16 %) of the equity of the companies recognising impairment losses. Altogether impairment losses represented 4% of the total goodwill of the Finnish listed companies at the end of the reporting period[6]. In 2007, the corresponding impairment losses recognised on goodwill amounted to EUR 727 million. Thus the amount of impairment losses on goodwill in 2008 was about one fifth larger than in 2007. Over the same period, the market value of Nasdaq OMX Helsinki decreased by 54% (from about EUR 252 billion to about EUR 116 billion)[7], compared to which the impairment losses were small. In the interim financial reports for the first and second quarters of 2009, only a small number of companies had recognised small impairment losses on goodwill.

In their 2008 financial statement releases, most companies forecasted that short-term growth prospects were declining and that profitability in 2009 would be lower than in 2008. According to FIN-FSA's observations this, however, did not much affect the impairment test results.

FIN-FSA surveyed the information on sensitivity analyses and discount rates in impairment calculations disclosed in the 2008 financial statements according to IAS 36 *Impairment of Assets*[8]. In addition, the company-specific IFRS enforcement covered special aspects of the measurement of discount rate components.

6 For companies with the largest goodwill amounts at 31 December 2008, see Appendix 2. For companies with the largest ratios of goodwill to equity at 31 December 2008, see Appendix 3.

7 Securities issued in Finland: http://www.bof.fi/en/tilastot/arvopaperimarkkinat/index.htm, http://www.bof.fi/Stats/default.aspx?r=/tilastot/arvopaperimarkkinat/arvopaperit_chrt_en

8 The survey included financial statements of 65 Finnish listed companies for the reporting periods 2008 and 2007. The companies whose goodwill as of 31 December 2008 was significant compared to the corporate equity, or companies which had a large euro-denominated goodwill, were selected for the survey. On 31 December 2008, the selected companies represented about 90% of the market value of Nasdaq OMX Helsinki.

3.1 Nearly one fifth disclosed no sensitivity analysis information at all

The purpose of a sensitivity analysis is to describe what kind of change in the key assumptions of the recoverable amount determined in impairment testing could lead to recognition of an impairment loss on goodwill.

As to the disclosure of sensitivity analysis information, FIN-FSA assessed how many of the companies had disclosed IFRS compatible information.

One third had extended their sensitivity analysis information, but on the whole the quality of disclosed information had not significantly improved

One third of the companies had extended their sensitivity analysis information in their 2008 financial statements compared to the preceding year. The sensitivity analysis information had been disclosed either in text or table format. Text was more common than table format. Some of the companies had disclosed the values of the changed assumptions and their effects only as a range at group level, not separately for cash-generating units or groups of units. The disclosed ranges were often so wide that an assessment of the effects of the sensitivity analysis results was difficult. No company had disclosed sensitivity analysis information on all key assumptions (IAS 36.134(d)(i), IAS 36.135(c)). The company may have mentioned several key assumptions but disclosed sensitivity analysis information only on the discount rate, for example. Due to the above-mentioned reasons, several companies' sensitivity analysis information on the impairment testing was insufficiently informative. According to FIN-FSA, the disclosed information must be clear and consistent so that users of the financial statements can give consideration to possible impairment.

One fifth of the companies gave only brief and superficial sensitivity analysis information by stating that a reasonably possible change in any key impairment testing assumption would not lead to recognition of impairment. In these situations the management of the company had assessed that there was no need to disclose more detailed sensitivity analysis information. In rare cases the disclosure of such a brief sentence can be sufficient. In such cases the users of the financial statements get no detailed information on how, for example, the decreased volume of sales or margin percentage would affect the test results and the possibility that an impairment loss would occur. Therefore, it is important to disclose justifications behind the corporate management's assessment of why the disclosure of more detailed sensitivity analysis information is not necessary.

Nearly one fifth of the companies had disclosed no sensitivity analysis information at all. As to these companies, nothing can be assessed about the possibility that an impairment loss would occur. FIN-FSA will consider further actions concerning these companies.

At best, the sensitivity analysis information given was clear in the sense that it disclosed both the company's own assessment of the possibility of an impairment loss and, to support this assessment, specified numeric information on the cash flows' sensitivity to changes in the assumptions. In these cases, the companies had disclosed IFRS compatible sensitivity analysis information on cash-generating units or groups of units. But even at best, the sensitivity analysis information contained deficiencies concerning both IFRS requirements on the notes to the financial statements (IAS 36.134(f)(i)-(iii), IAS 36.135(e)(i)-(iii)) and consistency and clarity of disclosure.

Sensitivity analysis information not disclosed according to detailed IFRS requirements

If a reasonably possible change in a key assumption would cause impairment, the company must disclose the following as sensitivity analysis information (IAS 36.134(f)(i)-(iii), IAS 36.135(e)(i)-(iii)):

1. the amount by which the unit's or group of units' recoverable amount exceeds its carrying amount,
2. the value assigned to the key assumption, and
3. the amount by which the value assigned to the key assumption must change in order for the unit's or group of units' recoverable amount to be equal to its carrying amount (after incorporating any consequential effects of the key assumption on the other variables used).

Not a single company had disclosed all three pieces of the required sensitivity analysis information. Often the companies had only disclosed indicative information on the cash flow projections' sensitivity to changes in the values of the key assumptions. FIN-FSA emphasises that the sensitivity analysis information must be disclosed

in sufficient detail according to IAS 36.134(f)(i)-(iii) and IAS 36.135(e)(i)-(iii). In this way the users of the financial statements can get an overall picture of the extent of changes in the key assumptions that could lead to recognition of an impairment loss.

(1) The amount by which the unit's or group of units' recoverable amount exceeds its carrying amount had been disclosed by about one fourth of the companies. The information had been disclosed either in euro or as a percentage value. The percentage disclosure was based on categories, in which the recoverable amount exceeds the carrying amount by, for example, 0, 0–20, 20–50 or 50%. As a rule, these ranges were too wide to provide any added value to the users of the financial statements; particularly the 0–20% range should be disclosed in closer detail. According to FIN-FSA, disclosing, for example, the ranges 0–2, 2–5% etc. or 0–5, 5–10% etc. would give the user materially more useful information about the probability of impairment loss in a situation with a change in some key assumption.

(2) The values assigned to all key assumptions had also been disclosed by one fourth of the companies. As to the rest of the companies, most of them had disclosed only the values assigned to part of the key assumptions. In these cases, mostly the discount rate and growth rate values had been disclosed, although margin levels, revenue, cost savings from corporate efficiency programmes, commodity prices, exchange rates etc. had also been reported as key assumptions.

(3) The amount by which the value assigned to a key assumption must change in order for the unit's or group of units' recoverable amount to be equal to its carrying amount had been disclosed by one fourth of the companies as well. Some of the companies had only disclosed information on the cash-generating units in which impairment was reasonably possible as assessed by the company. However, many companies had also disclosed this information on such units where the recoverable amount clearly exceeded its carrying amount. A small number of the companies had only disclosed indicative information without accurate figures on the cash flow projections' sensitivity to changes in the values of the key assumptions. IAS 36 also requires that in this context[9] any consequential effects of a change in the value of a key assumption on other variables used must be taken into account when determining the recoverable amount (IAS 36.134(f)(iii), IAS 36.135(e)(iii)). Only a small portion of the companies had disclosed that they had not incorporated the consequential effects. The companies are also expected to fulfil this IFRS requirement.

In addition, the companies had various ways of disclosing the extent of the changes in the key assumptions subject to sensitivity analysis. The information disclosed by some companies did not clearly reveal if key assumptions had been changed by a percentage rate or a percentage point. The companies should pay attention to that percentage rate and percentage point changes are disclosed as intended.

Impairment tests generally based on value in use calculations

The recoverable amount in impairment testing is determined as the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use (IAS 36.18). In practice, the impairment testing of companies' goodwill is carried out on the basis of value in use calculations. Thus the sensitivity analysis information disclosed is based on assumption changes in the value in use calculations.

If the recoverable amount based on value in use calculations leads to an impairment loss, according to IAS 36 the company must also determine the cash-generating unit's fair value less costs to sell, when there is reason to believe that the fair value can be reliably determined (IAS 36.18, IAS 36.20). If the recoverable amount determined in this way is higher than the carrying amount, no impairment loss shall be recognised. Thus the sensitivity analysis information based on value in use calculations may in some cases give a too negative impression of the possibility for impairment loss.

3.2 Very little information disclosed on changes and reasons for changes in discount rate component values and measurement techniques

Values and measurement techniques of discount rate components play an important role in impairment testing.

9 when disclosing the amount by which the value assigned to the key assumption must change in order for the unit's or group of units' recoverable amount to be equal to its carrying amount

FIN-FSA monitored changes made in the discount rates used in impairment testing and the market effects, caused by the financial crisis, taken into account in those discount rates. In addition, FIN-FSA monitored the information disclosed as a result of changes in the discount rates and their measurement techniques.

Discount rate level affects the goodwill test results

Nearly half of the companies had lowered the discount rates used in the 2008 impairment testing, compared to the previous year. The changes made in the discount rates (increases and decreases) were typically about one percentage point, but considerably larger decreases were also observed. However, very few companies explained the reasons for the discount rate cut[10].

The global recession has increased business risks, and this should also be reflected in the discount rates used in the testing of assets and goodwill for impairment. Thus discount rates that have been decreased or even retained by the companies raise the question of whether the discount rate has been determined exclusively on the basis of a decreased risk-free interest rate but not on the market-based changes in other discount rate components.

In determining the discount rate, the values of other assumptions used in the testing should also be taken into consideration. For example, assumptions of high growth rates of future returns often mean that their realisation includes a higher risk.

Changes in discount rate measurement techniques must be disclosed

In its company-specific IFRS enforcement, FIN-FSA observed that in some cases the discount rate measurement techniques had been changed or that different sources of information on the measurement of various discount rate components had been used, compared to the testing in 2007. These types of changes are often solutions based on judgement by the company management. As such, the reasons for the changes must also be disclosed in the notes to the financial statements (IAS 1.116, 1.120(d)[11], IAS 1 Presentation of Financial Statements). The user of the financial statements must be able to get an overall picture of the effect of the discount rate level on the test results also in a situation where the basis for the measurement of the discount rate has changed. This was not possible based on the information disclosed in most financial statements.

FIN-FSA emphasises that it is necessary to explain the reasons for changes in discount rates and other assumptions in order to inform the users of financial statements about, for example, why, in the company's opinion, the new discount rate measurement technique or source of information provides better information than the one used previously. Based on the disclosed reasons for the changes, the user of the financial statements can assess how the changes have affected the test results or will affect the impairment sensitivity in the future. Companies should always ensure the comparability of the disclosed information and the understandability of the consequential effects of the changes from one year to another.

Discount rate must reflect market assessments of the risks at the time of testing

The discount rate to be used is made up of several different factors. In the company-specific IFRS enforcement, FIN-FSA observed that some companies had taken the lower risk-free interest rate due to the financial crisis into account in their discount rate measurement. However, they had not necessarily updated other discount rate components to reflect the market situation.

In the value in use calculations, the discount rate reflects the market assessments, while the estimated cash flows are based on assessments made by the corporate management. According to IAS 36 (IAS 36.55–56, IAS 36 A18, IAS 36 BCZ53(a) and (c), IAS 36 BCZ54), the discount rate shall reflect the current market assessments of both the time value of money and the risks specific to the asset at the time of testing. A rate that reflects current market assessments is equal to the return that investors would require from an asset that would generate equivalent cash flows. Thus the rate to be used may not be affected by, for

10 The above-mentioned issues were partly dealt with in the Markkinat publication 2/2009: Talouden näkymien heikentyessä liikearvon arvonalentumistestaus tehtävä tarvittaessa useammin (Due to the weakening economic outlook, goodwill impairment testing should if necessary be performed more frequently).

11 IAS 1.125 and IAS 1.129(d) (2009).

example, the management's subjective estimate of future market developments or some other company-specific assessment.

When the weighted average cost of capital is used as the discount rate, the change in credit risk premium due to the market situation shall be taken into account in the cost of debt, although the credit risk premium on the company's stock of loans and loan commitments would not have been changed and the company would not need further funding at the time of testing. If the company uses a target capital structure for determining the cost of capital, the same capital structure shall be used in determining the level of credit risk premium. In addition, in determining the discount rate for different cash-generating units or groups of units, their exchange rate environments and country risks shall be considered.

3.3 Application and enforcement of IAS 36 in 2009–2010

In the impairment tests to be carried out in autumn 2009, the companies will have to make judgements on how the global recession affects the assumptions of business growth and profitability prospects and the short-term and long-term risk factors of the business. FIN-FSA expects that, in the notes to their financial statements, the companies will describe the effects of those factors and the changes in them compared to the previous year in closer and more exhaustive detail. According to FIN-FSA, in connection with the impairment testing, the companies should also separately assess the reasonableness of the calculated results by comparing them, for example, to the analyses of parties monitoring the company or sector and the performance measures of the competitors. The assessment of reasonableness should be carefully documented.

Impairment testing according to IAS 36 has been a focal area of FIN-FSA's enforcement since 2005. Application of the standard is challenging, and it comprises no detailed instructions on how the testing should be carried out. According to FIN-FSA's observations, impairment testing is still very chequered in practice as regards determination of applied assumptions, use of methods and disclosure of text and table format information in the notes to the financial statements. The methods and assumptions used in the impairment testing should be consistent from one year to another. Possible changes between the reporting periods should be justifiable and justified clearly, understandably and, above all, transparently. The management's ability to make estimates of future cash flows significantly affects the reliability of the impairment test results. Enforcement of standard IAS 36 will remain a focal area in FIN-FSA in 2010.

4 Disclosures of financial instrument risks do not give clear enough overall view of financial risk position

Standard IFRS 7 Financial instruments: Disclosures contains requirements according to which the company should disclose information on its exposure to risks arising from financial instruments by describing the extent and nature of the risks. When risks arising from financial instruments are assessed, it must at the same time be taken into account that some financial instrument contracts have been made only to manage market risks. Viewing financial instrument information separately without a clear connection to the company's objectives for market risk management, operating policies and hedged risk can weaken the understanding of the company's real financial position. To provide an overall picture of the market risks, the companies should also disclose information on their operational and environmental connections to the emergence of market risks, such as the effects of the foreign exchange markets. In practice, this often requires wider disclosure of risks than disclosing only the risks arising from financial instruments. IFRS 7 contains certain qualitative criteria for a general disclosure of the management of risks arising from financial instruments (IFRS 7.33, IFRS 7.34(a)).

4.1 Credit risk of sales receivables not transparent to investors

In terms of credit risk, IFRS 7 requires that the companies disclose information, in the notes to the financial statements, on the policies for managing credit risk (IFRS 7.33) and the maximum exposure to credit risk. It also requires that they describe collateral held and other credit enhancements (IFRS 7.36(a)-(b)). Some of the companies still disclosed information on credit risk too briefly in their notes to the financial statements, and the disclosure did not comply with the requirements. For these companies the most significant balance sheet item including credit risk was sales receivables, which were primarily described through tables presenting the maturities of those receivables and through a general description of the credit risk reducing methods applied, such as advance payments or credit insurances. Their risk reducing effects, however, were not disclosed.

Some of the companies had recognised significantly increased impairment losses on sales receivables. In such cases, according to FIN-FSA, the company should consider clearly disclosing the reasons for recognising the losses. The companies should particularly pay attention to the criteria for recognising impairment losses on sales receivables (IAS 39.58–62).

If the company recognises an impairment loss caused by credit losses on sales receivables in a separate account[12] (called, for example, an allowance account), it should disclose a separate reconciliation of impairment losses during the reporting period (IFRS 7.16, IFRS 7.BC26–27). The reconciliation considerably clarifies the picture of the finally realised impairment losses relative to the impairment loss assessments previously recognised. According to FIN-FSA, most of the companies recognise impairments by class of receivables, such as impairments of sales receivables due, which requires disclosure of reconciliation as described above.

4.2 Disclosed sensitivity analysis information on market risks does not reflect companies' exposure to hedged business risks

IFRS 7 requires sensitivity analysis of financial instruments' various market risks, whose reasonably possible changes affect the company's profit or loss and equity at the end of the reporting period (IFRS 7.40–41). Deficiencies were still observed in the information disclosed.

Although all companies, in their accounting policies or their notes on risk management issues, had described their principles for hedging net investments in foreign operations, about half of the companies had disclosed no information on the actual risk of their net investments (of the open position) (IFRS 7.31, IFRS 7.33–34). FIN-

12 Using such a separate account is an alternative to directly reducing the impairment from the carrying amount of the asset in question (IFRS 7.16).

FSA takes the view that it is not enough to only describe the hedges and their sensitivity analysis. The extent of the risks hedged must also be disclosed. Without this information the user of the financial statements cannot get an overall view of the situation (IAS 1.15(c))[13]. Some of the companies had, for example, suffered significant losses on translation differences in their net investments in foreign operations. That emphasises the importance of disclosing IFRS compatible notes on the issue in a way which enables the user of the financial statements to get an overall view of the extent and hedging of the risks arising from the net investments.

As regards the majority of the companies, the sensitivity analysis of financial instruments comprised information on the market risks arising from the financial instruments used in balance sheet and cash flow hedges. In addition, at best, the companies had disclosed information on the hedging period according to the risk management policy and the related, assessed and highly probable hedged risk (IFRS 7.31, IFRS 7.33–34). These companies' sensitivity analyses clearly disclosed the equity impact of the financial instruments used in cash flow hedges in relation to the assessed overall business risk.

When hedge accounting is applied, IFRS requires (IFRS 7.23(a)) that companies disclose the cash flow hedging periods in which the cash flows are expected to occur and affect profit or loss. Many companies did not disclose this information separately. Instead all information on expiring hedges was based on tables describing the maturities of the financial instruments. Thus, in particular, the information disclosed on foreign currency hedges does not necessarily disclose the period when the hedged cash flows are expected to affect profit or loss, because the maturity of the hedging instrument does not necessarily coincide with the maturity of the hedged cash flow. If the notes to the financial statements on risk management do not disclose the hedging period and the related hedges, the user of the financial statements will remain uninformed about how the effects disclosed in the sensitivity analysis will be realised during future periods.

4.3 Largest improvement in liquidity risk reporting

According to FIN-FSA, the companies' way of reporting their liquidity risk had clearly improved in the 2008 financial statements. In particular, FIN-FSA observed the change in the following sub-areas.

Qualitative information on the principles, objectives and conditions relative to the objectives of the liquidity risk management had been disclosed much more clearly than in previous years. On the whole, there is still a need for improvement in the disclosure of liquidity risk, as most companies reported that they were planning to decrease their working capital investments in order to, among other things, ensure liquidity. Typically this information was disclosed in the management report without a clear connection to the notes to the financial statements on liquidity risk. FIN-FSA's view is that adding or linking this information to the notes on liquidity risk, according to the principle in IFRS 7.33, provides an overall picture of the company's practical implementation of its liquidity risk management, because the sufficiency of the liquidity reserves affect the company's operational activities.

As a rule, the companies clearly disclosed the division of the liquidity reserves into undrawn committed credit facilities and uncommitted credit lines. More companies than in previous years had in their notes to the financial statements also disclosed a table of maturities of credit facilities. In this respect, a clear qualitative improvement has occurred regarding the liquidity risk.

4.4 Inadequate information disclosed on covenants

According to IFRS 7.31, the companies must disclose information that enables users of the financial statements to evaluate the nature and extent of risks arising from financial instruments. This also covers information on covenants, because a possible breach of covenants in loan agreements may provide information on the company's liquidity or interest rate risks. Together with other factors, the breach of covenants may sometimes even be an indicator of uncertainty related the company's ability to continue as a going concern. For this reason, disclosures on covenants are helpful to the users of financial statements.

13 IAS 1.17(c) (2009) A fair presentation requires additional disclosures to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

FIN-FSA assessed the quality of covenant disclosures presented in the financial statements of those companies (15) which were under company-specific enforcement. In the notes to the financial statements, the companies had, at best, included more information on covenants than in the previous year by disclosing highlights on significant covenants related to financial liabilities or committed credit facilities. These companies had also extended their information on calculating methods for covenant terms, actual covenant levels and conditions on the balance sheet date relative to covenants.

The companies should take into account the IFRS requirements of information on covenants (IFRS 7.31) and breaches of covenants (IFRS 7.18–19, IAS 1.65–67[14]). To enable users of the financial statements to evaluate the nature and extent of risks arising from financial instruments according to IFRS 7.31, information on covenants should be disclosed in sufficient detail. For example, the criteria of covenants, the effects of a breach of covenants and the probability of such a breach should be described, describing probability perhaps through sensitivity analysis. FIN-FSA's view is that more detailed information on the covenant terms must be disclosed in situations where a breach of the covenant limits is close. In addition, FIN-FSA emphasises that the regulations on disclosing liquidity risk have been adjusted in March 2009[15].

If there has been a breach of covenant terms during the reporting period and the breach permits the lender to demand accelerated repayment, the company should disclose more detailed information as required in IFRS 7.18–19. The information should disclose, among other things, whether the default has been remedied or whether the terms of the loans were renegotiated before the date the financial statements were authorised for issue (IFRS 7.18(c)). When a company does not fulfil its commitment related to a long-term loan arrangement with the effect that the loan becomes payable on demand, IAS 1 further requires that the liability is classified as current. The liability is to be classified as current when the company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period. (IAS 1.65–67)

Almost half of all listed companies disclosed information on covenants in loan agreements[16]. About half of those companies merely stated that they had covenants, whereas the rest of these companies disclosed detailed information on the covenant terms.

Of all the listed companies, less than 10 reported that covenant terms had been breached in 2008. In most of these cases the reporting was inadequate, as only a few companies disclosed the effect of the breach of covenant terms.

4.5 Disclosures of financial instruments' impact on profit or loss vary

IFRS 7 requires disclosure of financial assets' impact on profit or loss according to IAS 39 Financial instruments: Recognition and Measurement. In addition, the interest income and expense of financial assets and liabilities measured at amortised cost should be disclosed separately. Furthermore, the cash flow hedge accounting impacts on the financial statements should be disclosed so that the amounts included in the separate balance sheet items are specified.

Only some of the companies had specified profit or loss effects of exchange differences and hedge accounting by category according to IAS 39. At best, also exchange differences, interest income and interest expense recognised in the financial balance sheet items had been specified, either by category according to IAS 39 or based on application of hedge accounting. In some individual cases, the notes to the financial statements thus also disclosed that a currency risk affecting profit or loss had arisen from intragroup monetary loan receivables.

In regrettably many companies there is still a need for improvement in the disclosure of financial instruments' impact on profit or loss, when compared to IFRS requirements. Typically, the net impact of trading instruments and hedging had been recognised in the financial items, which is not IFRS compatible. For this reason, the market risk caused by the company's operations and the effects of the measures taken according

14 IAS 1.74–76 (2009)

15 IFRS 7 Implementation Guidance B11F(f), which entered into force on 1 January 2009 and applies to reporting periods starting on that date or later.

16 FIN-FSA does not have accurate information on how many companies in all have covenant terms in their loan agreements.

to its risk management policy in order to reduce the risk can be difficult to assess on the basis of the information disclosed. One of the basic IFRS requirements (IFRS 7.7, IFRS 7.20) is a clear disclosure of the categories of financial instruments and of the profit or loss effects by those categories in a way which enables the users of the financial statements to understand the realisation, in the company's profit or loss, of the different instrument measurement principles and the risks arising from those measurement principles.

4.6 Disclosed information must clearly describe principles and limits of the judgement applied by the company to its recognition of financial instrument impairment

As regards listed banks, special attention was paid to the accounting policies and practical application of investments in financial instruments. FIN-FSA's enforcement efforts were focused on equity, mutual fund and interest rate investments categorised as available-for-sale financial assets, as the uncertainty in the financial market significantly affected their fair values. FIN-FSA paid on-site inspection visits to the banks in order to assess the principles and methods of categorising, measuring and recognising impairment of the investments. On the basis of the inspection visits, FIN-FSA required changes by some of the banks in the application of their categorisation and measurement principles.

The regulation of recognising impairment of financial instruments (IAS 39.58–62) is based on principles, which offers preparers of financial statements the possibility of applying company-specific judgement in their impairment reporting. Therefore, according to FIN-FSA, the accounting policies should be disclosed so that the users of the financial statements get a clear picture of the principles and limits of the judgement applied by the company to its reporting of financial instrument impairment and through this picture are enabled to independently assess the management's ability for determining the principles and criteria for recognising impairment. The importance of this aspect has increased particularly during the financial crisis.

The EECS has dealt with several issues of reporting impairment of available-for-sale financial assets, some of which have also been published[17].

At its inspection visits, FIN-FSA also observed that the basis for recognising impairment losses on shares and interests often was an assessment of the financial operating capability of the investee or of the general value level of the investments at the financial market in addition to the actual impairment of the individual investment. As to equity investments, a significant or prolonged decline in the fair value of the investment below its original cost is already, in itself, objective evidence of impairment.

4.7 Investment firms' and fund management companies' financial statements

Non-listed investment firms prepare their financial statements according to the Credit Institutions Act (121/2007), the related Ordinance (150/2007) and the FIN-FSA standard[18] 3.1 Financial Statements and Management Report. Fund management companies in turn prepare their financial statements according to the Mutual Funds Act (48/1999) and the related Decree (820/2007). Amended layouts of the income statement and balance sheet of fund management companies have been applied since 1 January 2008.

Investment firms

FIN-FSA reviewed the financial statements of 15 investment firms. A small number of the firms did not fulfil the measurement requirements: some of the financial assets had been measured according to cost instead of fair value. FIN-FSA has started taking appropriate enforcement action.

17 The CESR published the most recent batch of decisions on 26 August 2009: 6th extract from EECS's database of enforcement decisions (CESR ref. 09-720). The IFRIC Update of July 2009 comprised clarifying instructions on the contents of the regulation as regards the criteria of significant and prolonged.

18 *By virtue of section 76, subsection 6 of the Act on the Financial Supervisory Authority (878/2009), any decisions and regulations issued by the Financial Supervision Authority before this Act entered into force on 1 January 2009 remain in force after the entry into force of this Act as if they had been issued by the Financial Supervisory Authority.*

Fund management companies

FIN-FSA reviewed the financial statements of 26 fund management companies. The companies had changed their financial statements in accordance with changes in the regulation governing them. However, one third of the companies erroneously disclosed repayment of administrative fees in the notes to the financial statements instead of disclosing them as a separate item in the income statement. Some companies had measured financial assets, recognised as investments, at cost instead of measuring them at fair value. FIN-FSA has started taking appropriate enforcement action.

5 Uncertainties related to going concern status

When preparing financial statements, management must make an assessment of an entity's ability to continue as a going concern (IAS 1.23)[19]. Particularly in the recent economic environment, uncertainties related to going concern status have increased for many companies. If a company does not have a sound financial position, the weakening of the markets, the sufficiency of financing sources or changes in financing costs may substantially increase uncertainties. The assessment is a key part of preparing financial statements because financial statements prepared based on the going concern basis may differ from financial statements prepared on another basis, particularly in terms of measurement. In addition to the careful assessment of the going concern assumption, it is important that investors are provided sufficient information on uncertainties, as required by the IFRSs.

Financial statements must be prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment of the entity's ability to continue as a going concern, of any material uncertainties related to events or conditions which may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties must be disclosed. (IAS 1.23)[20]

The standard requires that in assessing whether the going concern assumption is appropriate, management shall take into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management must consider a wide range of factors relating to, for example, current and expected profitability, debt repayment schedules and potential sources of replacement financing. (IAS 1.24[21] IAS, 10.14–16) In the disclosure of uncertainties, the management uses a considerable amount of judgement

19 IAS 1.25 (2009).

20 IAS 1.25 (2009).

21 IAS 1.26 (2009).

in determining what, in practise, is meant by material uncertainties and events or conditions which may cast significant doubt.

The IFRSs also include other requirements related to the disclosure of uncertainties, such as the IFRS 7 requirements on notes, concerning the breach of covenants in loan agreements and liquidity risks and the requirement included in standard IAS 1 that liabilities are to be classified as current when a provision of a loan agreement has been breached with the effect that the liability becomes payable on demand. (IFRS 7.3–42, IAS 1.65–67[22]) The breach of covenants, together with other factors, may in some cases provide an indication of uncertainties related to the going concern status. IAS 1 requirements on notes, concerning management judgement (IAS 1.116–124)[23] and the management of capital (IAS 1.124A–124C)[24] may provide useful additional guidance on the disclosure of material uncertainties[25].

5.1 Poor information disclosed on uncertainties related to going concern status

FIN-FSA assessed the financial statements of those listed companies whose auditor's reports on the reporting period 2008 included an emphasis of matter paragraph on uncertainties related to the going concern status. The assessment focused on the adequacy and clarity of information disclosed by the companies on factors linked to the uncertainties. Such factors included, among other things, current and expected profitability, debt repayment schedules, potential sources of replacement financing, breaches of covenants and consequences of such a breach, and disclosed risks, particularly liquidity risks.

The majority of companies disclosed adequate information on the threats to their ability to continue as a going concern, if the information disclosed in the management report and financial statements are assessed together. Only few companies had disclosed the factors linked to the uncertainties related to the going concern status as a clearly separate part, and thus the overall view of the uncertainties related to going concern status might have remained unclear. Financial statement information on the going concern status was not always clearly separated from eg other information on risks and risk management. All in all, it may have been difficult to obtain an overall picture based on the financial statements alone. The company that best disclosed information on threats to its going concern status did so in several parts of the management report and in the financial statements, under a heading referring to the going concern status in a way that various uncertainties related to threats to the going concern status were presented as a clearly separate part. The company that disclosed the most inadequate information reported severe risks to its business operations but failed to mention that the risks in question are uncertainties related to its going concern status. On the basis of the information disclosed, readers should be able to understand that a company's ability to continue as a going concern is under threat and also understand the underlying reasons for the threat.

In addition to the above-mentioned companies, FIN-FSA chose a group of companies based on the risk factors describing their weak financial position[26]. The financial statements and management reports of these companies were assessed by focusing on the details disclosed on the most significant risks and whether the companies reported that the risks are a threat to their going concern status. A few companies disclosed the existence of uncertainties and doubts about their ability to continue as a going concern. Some of the companies specified which strengths enable them to survive their weak financial position, however without making any reference to the going concern status. Some of the companies did not convince by their reporting that there are no uncertainties that could pose any problems to their ability to continue as going concern. Taking into consideration the difficult market conditions, prevailing at the time the financial statements were drawn

22 IAS. 1.74–76 (2009)

23 IAS 1.125–133 (2009).

24 IAS 1.134–136 (2009).

25 Additional guidance can be found eg in guidance issued by the UK's Financial Reporting Council Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009, http://www.frc.org.uk/publications/pub2140.html

26 The companies were selected based on profitability, debt and cash flow ratios. FIN-FSA also took into consideration the weak share price developments in early 2009 and profit warnings as factors that increase risks.

up, FIN-FSA expected, firstly, that these companies would have separately mentioned that the financial statements have been prepared on a going concern basis. Secondly, FIN-FSA expected these companies to justify why they considered the uncertainties so immaterial that they do not threaten their ability to continue as a going concern.

5.2 Efforts must be devoted to the presentation of information in future financial reports

FIN-FSA emphasises that information on uncertainties related to going concern status is important to investors. Their disclosure must be improved in the 2009 financial statements and management reports.

Information disclosed on the going concern status shall be adequate, relevant and presented as a clearly separate part in the financial statements. If management has presented material uncertainties related to the company's going concern status in accordance with standard IAS 1 in the financial statements, sufficient information must be disclosed on judgement used by management and their assumptions about future events. The assumptions must be realistic so that expected problems can be solved with the help of the assumptions. The disclosure of threats and opportunities must be balanced. It is also important for investors that management present justified rationale, why the going concern basis is appropriate, despite the threats.

6 Other key observations

6.1 Business combinations

The total cost of business combinations carried out by Finnish listed companies in 2008 increased considerably compared to 2007.

As in previous years, FIN-FSA surveyed the total volume of business combinations, allocation of the cost of the combination to the acquiree's net assets and the recognition of goodwill within the scope of standard IFRS 3 Business Combinations. Finnish listed companies' total cost of business combinations in 2008 was EUR 10.8 billion, i.e. more than twice as high as in the previous year (EUR 5.3 billion). Of the listed companies, 60 (59 companies in 2007) had carried out business combinations in 2008 within the scope of the standard. The amount of new goodwill arising from the business combinations in 2008 totalled EUR 5.8 billion (EUR 2.4 billion), accounting for 53% of the total cost of business combinations (45%).The large amount of assets recognised as goodwill may be an indication that, at the acquisition date, all of the acquiree's intangible assets are still not recognised separately from goodwill in business combinations. The large amount of goodwill may also be due to the fact that the acquiree's assets are not measured at fair value as required by the IFRSs, but at a lower value.

The share of the total cost of business combinations allocated to intangible assets was 22% (33%). Of this 22%, 4% was allocated to customer relationships, 1% to trademarks and product marks, and 14% to technology. The share of the total cost allocated to tangible assets was 10%, the majority of which consisted of one large acquisition. When assessing the allocation of the total cost, it must be taken into consideration that the cost allocation varies considerably from year to year, depending for example on the volume and industry of business combinations, as well as the nature and size of individual acquisitions. In 2008, the most significant acquisitions took place in the information technology and electricity distribution sectors. Companies with the largest acquisitions in 2008 are listed in Appendix 4. The allocation of the total cost of business combinations in the financial statements of Finnish listed companies in 2005–2008 is presented in Appendix 5.

The revised standard IFRS 3 is to be applied for reporting periods starting on or after 1 July 2009. According to the revised standard, an intangible asset must still be recognised separately from goodwill when it is identifiable. An intangible asset is identifiable if it meets the separability criterion or arises from contractual or other legal rights. Reliable measurement of fair value is thus no longer a requirement for recognition separately from goodwill. Therefore intangible assets are expected in the future to be recognised more often separately from goodwill in business combinations. FIN-FSA will actively supervise the application of the acquisition method within the scope of the revised standard IFRS 3 in the financial statements of Finnish listed companies.

6.2 Non-current assets held for sale and discontinued operations

In the period 2008, 17 companies (18 in 2007) reported non-current assets held for sale, and 15 companies (22) reported discontinued operations, as referred to in IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

FIN-FSA observed deficiencies in financial statement information in situations in which a non-current asset, classified in a prior period as held for sale, has been removed from the group of assets classified as held for sale. In such a case, in the period of the decision to change the plan to sell the non-current asset, a company must provide a description of the facts and circumstances leading to the decision and the effect of the decision on the results of operations for the period and any prior periods presented (IFRS 5.42).

With regard to discontinued operations, the most frequent deficiencies were observed in information disclosed on gain or loss of discontinued operations. Companies must disclose revenue, expenses and pre-tax profit or loss of discontinued operations, the income tax expense on profit or loss, the pre-tax profit or loss of on the disposal of assets or disposal groups and particularly the related income tax expense (IFRS 5.33(b)(i)-(iv)). Moreover, the companies had not always complied with requirement (IFRS 5.33(c)) on the disclosure of net cash flows attributable to the operating, investing and financing activities of discontinued operations.

Overall, FIN-FSA observed lack of terminological clarity in the financial statements concerning the use of terms to describe non-current assets held for sale and discontinued operations. Companies must use IFRS 5 terminology in information presented on non-current assets held for sale and discontinued operations.

6.3 Provisions

According to standard IAS 37 Provisions, Contingent Liabilities and Contingent Assets, a provision is a liability of uncertain timing or amount (IAS 37.10). Provisions include for example, restructuring provisions, warranty provisions, provisions for loss-making contracts, and environmental provisions.

At the end of the period 2008, Finnish listed companies' restructuring provisions totalled EUR 1.2 billion (EUR 1.3 billion), warranty provisions EUR 2.0 billion (EUR 2.0 billion), provisions for loss-making contracts EUR 0.28 billion (EUR 0.10 billion), and environmental provisions EUR 0.18 billion (EUR 0.17 billion). In 2008, companies increased restructuring provisions by EUR 1.1 billion.

Companies must disclose for each class of provision a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits (IAS 37.85(a)). One-third of the companies failed to disclose this information. Provisions may be aggregated to form a class if the nature of the items is sufficiently similar (IAS 37.87). No other basis of aggregation may be applied, and for each class of provision companies must disclose the information required by IAS 37.

FIN-FSA also observed lack of terminological clarity in the financial statements concerning the use of terminology to describe provisions. Throughout the financial statements, companies are to use terminology that is consistent with the IFRSs valid at the time. For example, the term 'loan loss provision' is not found in the IFRSs. The corresponding item is 'impairment loss' which is not a provision as defined in IAS 37 (IAS 37.63–65). Nor is the term 'obligatory provision' found in the IFRSs. FIN-FSA also observed that a considerable proportion of the companies had recognised pension provisions in the same note as provisions defined in IAS 37. Pension provisions are not usually characterised as provisions unless they are part of restructuring

provisions, but rather as liabilities that are to be disclosed in accordance with IAS 19 Employee Benefits.

6.4 Interim financial reports

FIN-FSA surveyed listed companies' IFRS reporting in the condensed section of tables of interim financial reports by reviewing the interim financial reports of 30 listed companies[27] for the first and second quarter of 2009.

FIN-FSA continued to observe deficiencies in the presentation of the basis for preparing the interim financial report. In the interim financial reports for the first three and first nine months of the reporting period and in the financial statement release companies must clearly state that "The interim financial report is in compliance with standard IAS 34." (IAS 34.19) or that "The interim financial report has been prepared in compliance with the recognition and measurement principles of the IFRSs but it does not comply with all the requirements of IAS 34" (MFD 153/2007). In the interim financial report for the first six months companies must declare that "The interim financial report is in compliance with standard IAS 34." (IAS 34.19). The interim financial report prepared in accordance with IAS 34 and the interim financial report with the condensed section of tables differ in terms of required selected explanatory notes (IAS 34.15–18; Section 3 of MFD 153/2007). Presentation of the basis for preparing the interim financial report is important as it tells the reader what information should be available in the section of tables and its explanatory notes.

Companies have improved reporting on the other areas in which FIN-FSA observed[28] deficiencies in 2008. Nearly all the companies included in the sample had presented diluted earnings per share (IAS 34.11) and reported whether the same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements (IAS 34.16(a)).

As in 2008, serious deficiencies were also observed this year in reporting under IFRS 3 Business Combinations in interim financial reports. If a company prepares its interim financial report according to IAS 34 Interim Financial Reporting, in the case of business combinations, the company must disclose the information required by IFRS 3 (IAS 34.16(i)), if the information is material. Materiality is to be assessed in relation to the interim period financial data (IAS 34.23). FIN-FSA considers that, for example, a publication of a stock exchange release on a future or realised business combination might be an indication by the company of a material business combination, on which standard IAS 34.16(i) requires a company to disclose the notes in accordance with IFRS 3 (IFRS 3.59-63 and IFRS 3.B64–67).

New requirements on segment information (IAS 34.16(g)(i)-(vi)) entered into force in the periods beginning on or after 1 January 2009. The requirements apply to companies that disclose segment information in their annual financial statements as required by standard IFRS 8 Operating Segments. More than half of the companies did not report total assets by segments (IAS 34.16(g)(iv). More than half of the companies had disclosed intersegment revenues. Intersegment revenues must be disclosed if they are included in the measure of segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to the chief operating decision maker (IAS 34.16(g)(ii)). Similarly, more than half of the companies had presented a description of differences from the last annual financial statements in the basis of segmentation or in the basis of measurement of segment profit or loss (IAS 34.16(g)(v)).

27 The sample consisted of 10 large, medium-sized and small Finnish listed companies.

28 Markkinat publication 4/2008: Selvitys Q1/2008 osavuosikatsauksen taulukko-osasta (Study on the condensed financial statements of Q1/2008 interim financial reports, available in Finnish only).

Appendices

Appendix 1. Enforcement environment

The Financial Reporting Enforcement Division's enforcement covers companies whose home country for disclosure of periodic information is Finland and that have issued equity or debt instruments on regulated markets in the European Economic Area. On 31 December 2008, the number of equity issuers was 128 and that of bond issuers was 12. Financial statements of investment firms and fund management companies also fall within the scope of enforcement of financial reporting.

Methods of enforcement

In its enforcement of financial reporting, FIN-FSA acts in accordance with CESR standards[29]. Such enforcement may focus on a listed company's full set of financial statements or only on those parts concerning a pre-selected focal area. Regarding the full set of financial statements, a risk-based method of selecting companies is used. The selection is supplemented by random sampling. Thereby, any company may be selected for enforcement at any time.

Risk-based company-specific enforcement

Risk-based selection of companies is based on CESR Standard No. 1[30] and its application guidance. The risk concept consists of two factors (1) the probability of material misstatement in financial statements and (2) the potential impact of such material misstatement on market confidence and investor protection (company's significance). Primarily companies with a high probability of a material misstatement in the financial statements and their potentially large impact on market confidence and investors protection are selected for enforcement. Moreover, some companies are selected for enforcement based on only one of the above-mentioned factors. The risk-based selection method is supplemented by random sampling. As a result, any company has the possibility to be selected for enforcement at any time.

The probability of material misstatement is evaluated using a company-specific risk index. The risk-index regarding 2008 financial statements consisted of 21 risk indicators related to such factors as the company's compliance history, financial position and related performance measures, business combinations, and ownership and financing arrangements. The evaluation of the company's significance was based on its market value.

The method of sampling and its efficiency is assessed annually.

Risk-based enforcement in focal areas - thematic reviews

The focal areas are selected annually. They may include, for example, a specific IFRS or a sector. The focal areas are chosen based on, for example, topicality, overall economic situation, situation in the sector or relevance of the topic in terms of financial reporting. In risk-based enforcement in focal areas, companies' financial statements are examined only in terms of the focal areas.

Enforcement of prospectuses

FIN-FSA also enforces the financial information presented in prospectuses. The depth of reviewing accounting issues depends on FIN-FSA's evaluation of the company as a financial reporter and the nature of the transaction causing the obligation to publish a prospectus. In the event of an initial public offering, the company's first IFRS financial statements and the related significant accounting issues are thoroughly reviewed.

29 The 1st standard by CESR "Enforcement of Standards on Financial Information in Europe" was issued on 12 March 2003 (ref. CESR/03-073), CERS's 2nd enforcement standards "Co-ordination of Enforcement Activities" was issued on 22 April 2004 (ref. CESR/03-317c). In addition, CESR issued the "Guidance for Implementation of Co-ordination of Enforcement of Financial Information" on 28 October 2004 (ref. CESR/04-257b).

30 CESR Standard No. 1 on Financial Information - Enforcement of Standards on Financial Information in Europe (ref. CESR/03-073).

International cooperation

As part of its enforcement task, FIN-FSA participates in the activities of CESR's permanent operating group, the Committee of Financial Reporting (CESR-Fin). CESR-Fin coordinates the CESR members' enforcement activities and other activities regarding financial reporting.

Under CESR-Fin operates the European Enforcers Coordination Sessions (EECS) where questions concerning IFRS application are handled, both in terms of technical solutions and enforcement actions. The objective of this cooperation is to ensure consistency of enforcement decisions in Europe. FIN-FSA is committed to the joint enforcement policies agreed between enforcers. FIN-FSA however makes national enforcement decisions independently. EECS discussions are part of FIN-FSA's regular enforcement process. The EECS also maintains a database of enforcement decisions taken by national enforcers in member states. The decisions are published regularly by CESR to enhance the transparency of enforcement activities.

There are also other working groups operating under CESR-Fin. FIN-FSA participates in the group that comments the development of IFRSs and in the fair value working group. FIN-FSA participates in the various working groups both because of national enforcement needs and also to support European enforcement. Enforcement of IFRSs cannot be based solely on national actions, but it requires functioning European level enforcement.

FIN-FSA also participates in the work of the Committee of European Banking Supervisors' (CEBS) permanent committee, the Expert Group on Financial Information (EGFI), and its sub-group which handles financial reporting issues.

Appendix 2. Companies with the largest goodwill at 31 December 2008 and in 2007

2008			2007		
	Company	Goodwill, M€		Company	Goodwill, M€
1	Nokia	6 257	1	Sanoma WSOY	1 433
2	Sanoma	1 492	2	Nokia	1 384
3	UPM-Kymmene	933	3	UPM-Kymmene	1 163
4	Elisa	779	4	Elisa	774
5	Metso	778	5	Metso	772
6	Cargotec	669	6	Stockmann	720
7	Kemira	655	7	Carcoteq	670
8	Stockmann	647	8	Kemira	627
9	Sampo	632	9	Kone	577
10	Kone	621	10	OKO	504
11	Wärtsilä	549	11	Stora Enso	503
12	Pohjola Bank	516	12	Huhtamäki	472
13	Outokumpu	476	13	Wärtsilä	445
14	Huhtamäki	402	14	Tietoenator	416
15	Tieto	389	15	Amer Sports	271
16	Fortum	298	16	YIT	241
17	YIT	291	17	Ahlstrom	180
18	Amer Sports	279	18	M-real	172
19	Stora Enso	208	19	Cramo	152
20	Ahlstrom	169	20	Atria	152

Appendix 3. Companies with the largest goodwill-to-equity ratios at 31 December 2008 and in 2007

2008			2007		
	Company	Goodwill / equity %		Company	Goodwill / equity %
1	Biotie Therapies	345	1	Turvatiimi	304
2	Suomen Terveystalo	166	2	Suomen Terveystalo	180
3	Turvatiimi	138	3	Evia	143
4	Ixonos	128	4	Affecto	134
5	Digia	124	5	Digia	130
6	Affecto	124	6	Stockmann	121
7	Etteplan	123	7	Talentum	107
8	Sanoma	121	8	Sanoma WSOY	106
9	Tiimari	109	9	Etteplan	100
10	Cencorp	107	10	Ixonos	98
11	Salcomp	104	11	Salcomp	97
12	Stockmann	94	12	Tiimari	94
13	Talentum	90	13	Tietoenator	88
14	Elisa	89	14	Cencorp	85
15	Oral Hammaslääkärit	87	15	Solteq	83
16	Solteq	86	16	Keskisuomalainen	83
17	Keskisuomalainen	85	17	Kone	77
18	Trainers' House	84	18	Carcoteq	75
19	Tieto	81	19	Elisa	75
20	Cargotec	77	20	Huhtamäki	61

Appendix 4. Companies with the largest business combinations in 2008 and 2007

2008

	Company	Acquiree	Total acquisition cost EUR m	Goodwill generated by acquisitions EUR m
1	Nokia	NAVTEQ, Symbian Ltd (from 47.9% to 100%), others	6 497	4 482
2	Fortum	TGC-10, others	2 553	339
3	Outokumpu	SoGePar Group, others	236	79
4	Wärtsilä	Vik-Sandvik Group, others	214	126
5	Sanoma	Nowa Era, muut	191	143
6	Ruukki Group	RCS Limited, Türk Maadin Sirketi A.S. (98.75%),others	170	64
7	Oriola-KD	Vitim & Co (75 %), Moron Ltd (75%)	116	82
8	Aspo	Kauko-Telko Oy	96	37
9	Kone	ARA Lyon, Arundel Elevator, International Elevator Company, others	60	52
10	Metso	Mapag Valves GmbH, others	56	17

2007

	Company	Acquiree	Total acquisition cost EUR m	Goodwill generated by acquisitions EUR m
1	Nokia	Establishment of Nokia Siemens Networks	5 500 (**)	803
2	Stockmann	Lindex AB	851	722
3	Ahlstrom	Spunlace nonwoverns business of Orlandi Group, consumer wipes business of Fiberweb plc, Fabriano Filter Media SpA, part of Brazilian speciality paper production plant from Votorantim Celelose e Papel	223	87
4	Cargotec	Several smaller acquisitions, eg Indital Construction Machinery Ltd, Kalmar Intia Pvt. Ltd and BG Crane Pty. Ltd	198	166
5	Fiskars	Iittala Group Oyj, others	176	79
6	HKScan	Swedish Meats' business (Scan AB)	162	32
7	Suomen Terveystalo	Medivire Työterveyspalvelut Oy, others	136	105
8	Atria Yhtymä	AB Sardus, others	129	95
9	Trainers' House (*)	Acquisition of Satama House Oy	75	44
10	Sanoma-WSOY	Printcenter Oy, Noodi Oy, Rosetta Holding B.V., SportUp Dinland Oy, Auto24, others	68	42

(*) until 31 Dec 2007 Satama Interactive Oyj.
(**) the Group's contributed networks business was valued at EUR 5,500 million.

Appendix 5. Allocation of total cost of business combination in financial statements, 2005—2008

Chart 1.
Allocation of the total cost of business combinations according to IFRS 3, 2008

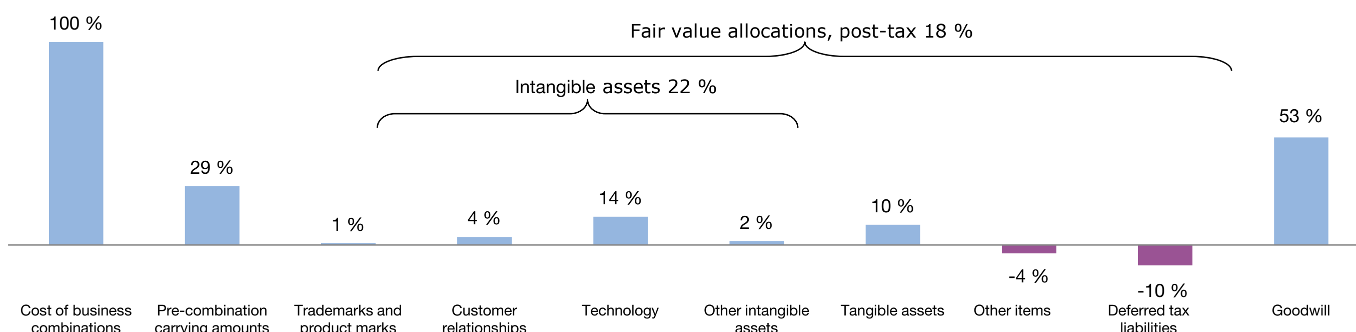

Chart 2.
Allocation of total cost of business combinations according to IFRS 3, 2007

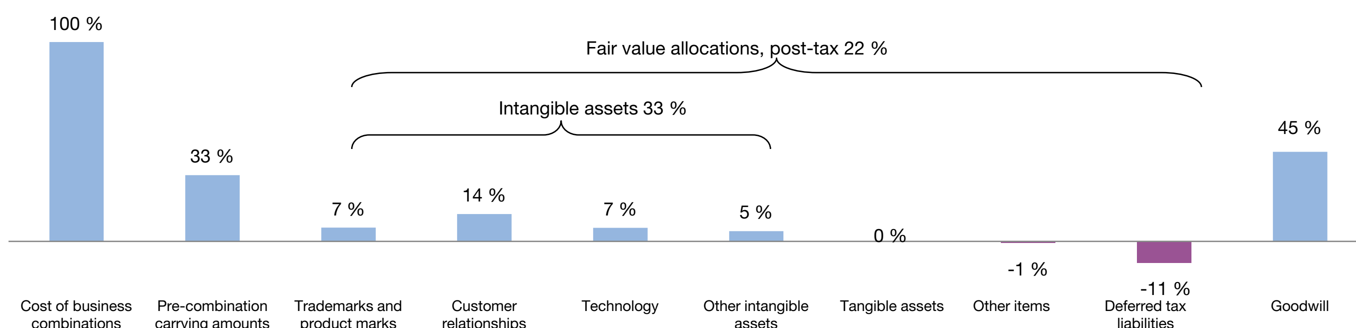

Chart 3.
Allocation of total cost of business combinations according to IFRS 3, 2006

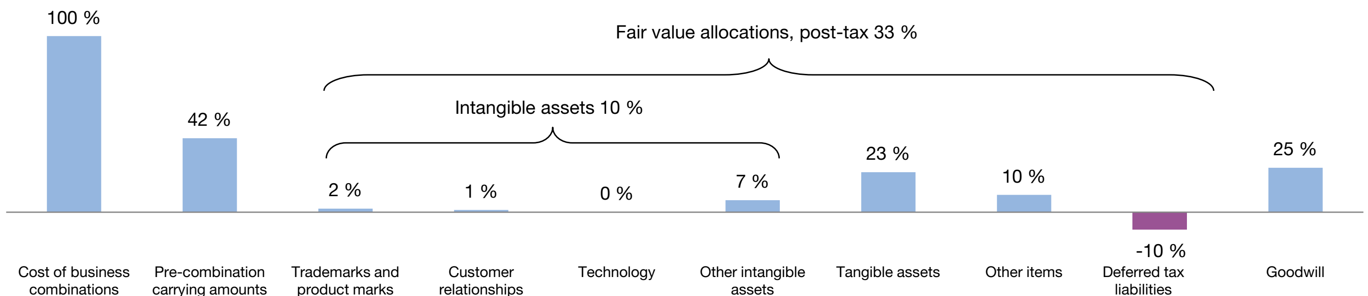

Chart 4.
Allocation of total cost of business combinations according to IFRS 3, 2005