

# Report on IFRS enforcement in 2010

1 (3)

## Report on IFRS enforcement in 2010

In 2010, IFRS enforcement focused on the financial statements for 2009 of listed companies selected according to a risk-based approach, interim reports for 2010 selected by theme and part of the stock exchange announcements affecting annual financial reporting. Enforcement observations were disclosed in meetings arranged for listed companies in December 2010.

In the financial year 2009, the activities of listed companies were influenced by the recession following the financial crisis and its particular impact on exports (GNP -8.2%, value of exports -31%). In enforcement, special attention was therefore paid to goodwill impairment tests and to information on financial instruments – particularly covenants – and companies' ability to continue as a going concern. The selected subject areas of enforcement were implementation of the new standard on business combinations as regards the interim reports for 2010 and earnings per share (EPS) and curtailments of defined benefit pension plans as regards the financial statements for 2009.

The other principal line of IFRS enforcement was to focus on the presentation of financial statements and their diligent preparing. In its enforcement, FIN-FSA has observed that the quality of financial reporting varies significantly between companies. Corporate financial statements may also contain small errors and shortcomings. Although materiality is one of the cornerstones of financial reporting, FIN-FSA takes the view that companies should also assess the diligence of their financial reporting processes. Furthermore, FIN-FSA considers that companies' audit committees should state their general views on the quality of the financial statements and the care taken in preparing them. Carefully prepared financial statements ensure the progress of financial reporting through audit and supervision.

## Scale of IFRS enforcement

The below table describes the scale of 2010 IFRS enforcement by type of enforcement.

Type of enforcement	Number of enforcement events
Risk-based enforcement; entire financial statement information	16
Enforcement by theme and in response to stock exchange announcements	39
Inspection of prospectuses	4
<b>Total</b>	<b>59</b>

As the table shows, a total of 51 supervision letters<sup>1</sup> were sent to 16 companies selected according to a risk-based approach<sup>2</sup>. Four of these companies were requested to submit their goodwill impairment calculations to FIN-FSA for assessment. A total of 58 supervision letters on selected themes were sent to 26 companies. In addition, FIN-FSA responded with inspections on the basis of companies' stock exchange announcements, sending 11 companies a total of 27 supervision letters. IFRS enforcement also covered the IFRS figures included in the prospectuses of four companies, of which the IFRS financial statements of one listed company were fully examined.

During the year, the procedures and processes of enforcement were developed. The requests for clarification and final supervision letters were standardised and the scope and details of the requests were significantly increased. In connection with the requests for clarification, companies were also required to provide more frequent and extensive written documentation, such as minutes of Board meetings and acquisition calculations of business combinations.

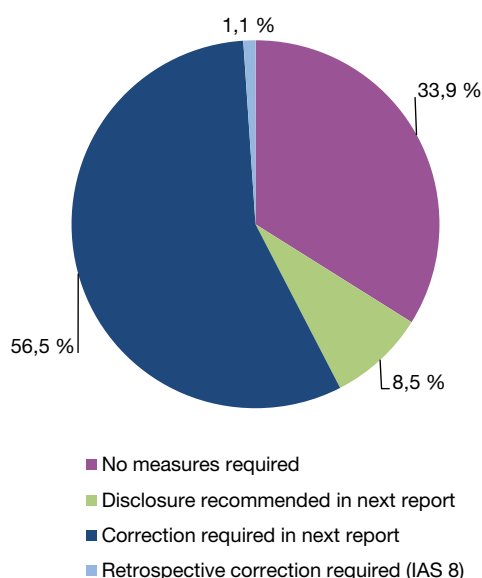
<sup>1</sup> The supervision letters comprised requests for clarification and final supervision letters.

<sup>2</sup> In accordance with the principles presented in CESR's enforcement standard No. 1: Enforcement of standards on financial information in Europe. The selection according to a risk-based approach included 20 risk measures, 10 of which were financial factors.



## Enforcement observations and measures to be taken by the companies

Companies were requested to provide clarifications on observations included in the supervision letters and made on the basis of published financial reporting information. In addition, companies were requested to take into account, in their future financial statements, other routine remarks by FIN-FSA requiring no separate replies.



The distribution of company measures based on individual observations is illustrated above. The financial statement information was corrected retrospectively following some observations (1%). Certain corrections were required (56%) and certain disclosures recommended (9%) for inclusion in subsequent financial reports. In respect of the remainder of the observations (34%), FIN-FSA required no measures.

## Approval of prospectuses and IFRS

IFRS enforcement was developed so that the supervision of financial statements was less extensive in connection with the approval of prospectuses. From now on, the enforcement of IFRS standards in conjunction with the approval of prospectuses will focus particularly on conditions that clearly increase the risk of incorrect financial data. In practice, this means that financial statements will generally be supervised in connection with the approval of prospectuses only when the prospectus is provided in respect of a company listing, significant corporate acquisition or restructuring.<sup>3</sup>

## International activities

Representatives of FIN-FSA's IFRS enforcement participated in the European Enforcers Coordination Sessions (EECS). Eight such two-day sessions were held during the year. Finland submitted four decisions to the database, which were dealt with in the EECS sessions. Two of the decisions concerned goodwill impairment tests, one management incentive systems and one financial liability classification. In addition, Finland submitted two enforcement cases for preliminary discussions. One case involved income statement financial ratios other than earnings per share (EPS) and the other concerned the contents of turnover. The European securities regulator published the 8th and 9th Extracts from EECS's Database of Enforcement.<sup>4</sup>

In addition, FIN-FSA's IFRS enforcement participated in the consultation work of the European securities and banking regulators<sup>5</sup> as regards commenting on new standard drafts prepared by the IASB, particularly pertaining to four main projects: financial instruments, revenue from contracts with customers, leases and insurance contracts. Good accounting practice in national accounting legislation was promoted by participating in the work of the Accounting Board of the Ministry of Employment and the Economy.

## Communication of IFRS enforcement results

FIN-FSA arranged two meetings for listed companies on 7 and 14 December 2010 at which companies and other interested parties were informed about enforcement observations.<sup>6</sup> About 170 representatives of listed companies participated in the meetings. Four articles on impairment of goodwill, sale of long-term assets, recognition of non-recurring items and curtailments of defined benefit pension plans were published in the newsletter *Markkinat*.

<sup>3</sup> See the newsletter *Markkinat* 4/2010.

<sup>4</sup> All decisions are available on <http://www.finanssivalvonta.fi/fi/Listayhtiolle/IFRS/IFRS-tiedotus/Pages/Default.aspx> under News of the European Securities and Markets Authority (ESMA).

<sup>5</sup> Five meetings of the Committee of European Securities Regulators (CESR) and three meetings of the Committee of European Banking Supervisors (CEBS).

<sup>6</sup> The presentations held at the meetings for listed companies are available (in Finnish) on <http://www.finanssivalvonta.fi/fi/Listayhtiolle/IFRS/IFRS-tiedotus/Pages/Default.aspx> under *Esitykset* (Presentations).

# Report on IFRS enforcement in 2010

3 (3)

## Increased cooperation with interested parties

In May 2010, FIN-FSA arranged a high-level international seminar on the subject Five years of IFRS Reporting – *How does the future look?* in cooperation with the Confederation of Finnish Industries, the Finnish Institute of Authorised Public Accountants, the Finnish Foundation for Share Promotion, the Ministry of Employment and the Economy, Aalto University and Hanken School of Economics. IASB board member Gilbert Gélard and EFRAG<sup>7</sup> ex-chairman Stig Enevoldsen participated as foreign lecturers. In all, the number of participants was just under 110.

In November 2010, an outreach meeting on the IASB project for updating financial statement presentation was arranged in cooperation with EFRAG, the Ministry of Employment and the Economy and the Confederation of Finnish Industries. Outreach meetings represent a new procedure introduced by EFRAG in 2010 for the purpose of local discussions of significant new amendments to financial reporting regulation. Nearly 80 participants attended the meeting.

## Closer cooperation with the Auditing Board

FIN-FSA has traditionally participated in the supervision of auditors through its membership in the Auditing Board of the Central Chamber of Commerce. In late 2010, cooperation with the Secretary of the Auditing Board was stepped up, as FIN-FSA and the Auditing Board focused their supervision on the same few financial statements. In its supervision, FIN-FSA assessed how the financial statements had been prepared, while the Auditing Board assessed how the auditors had audited them. The purpose of the cooperation is to enhance the supervision pursued by competent authorities regarding financial reports and so promote confidence in financial reporting. The development of cooperation and exchange of information will continue in 2011.

## Supervision of 2010 financial statements

In 2011, IFRS enforcement will still be performed through risk-based enforcement, enforcement by theme and in response to perceived shortcomings in stock exchange an-

nouncements. Attention will still be focused on impairment tests, business combinations and risk-related notes on financial instruments.

At the beginning of the year, work commenced in the EECS concerning the concept of materiality in financial statement information from the supervisor's point of view. On the basis of the results of this work, FIN-FSA also assessed its own approach to the materiality level of the questions presented in clarification requests. In addition, enforcement procedures are still being developed.

As regards information to investors, FIN-FSA assesses the impact on listed companies of significant amendments to new IFRS standards on financial instruments, revenue from contracts with customers, leases and insurance contracts and will prepare the enforcement by investing in developing its knowledge capital.

### For further information, please contact:

Tiina Visakorpi, Head of Division, tel. +358 10 831 5383 or  
Virpi Haaramo, Senior Accounting Expert, IFRS,  
tel. +358 10 831 5355.

<sup>7</sup> *European Financial Reporting Advisory Group. EFRAG is a private-law body established for the purpose of both commenting on the drafts of IFRS standards as a representative for European preparers and auditors and advising the European Commission on implementation of the IFRS standards.*

