

Report on IFRS enforcement in 2013

Conclusions of the IFRS enforcement

The difficult market situation and general economic uncertainty reflected on FIN-FSA's IFRS enforcement. In the sample of companies, focus was placed on risk indicators describing the financial position as well as on concentrated holdings. In the enforcement of financial reporting requirements, special attention was paid to disclosure of financial risk, measurement of financial assets and goodwill, and related party disclosures.

FIN-FSA monitored listed companies' financial statement disclosures of financial risk, particularly disclosures of liquidity risk and covenants. FIN-FSA also focused on application of hedge accounting, measurement of financial instruments, and impairments of loans and other receivables. As regards banks, FIN-FSA examined loan receivables, measurements of available-for-sale financial assets and derivatives, and hedge accounting. High quality and comparability of banks' financial statements increase investor and market confidence, which in turn favours financial market stability and economic growth. FIN-FSA led the preparation of a study on financial institutions' IFRS financial statements. The study was coordinated by the European Securities and Market Authority (ESMA).¹

The review of related party disclosures explored companies' processes for collecting related party information and ensuring disclosure of material related party events in the financial statements. Development is required as regards identification of related parties, collection of information on related party transactions, and related party disclosures. The distinctions between related parties and insiders were partly unclear. Related parties had not always been identified. All companies did not have a specified process for collection of related party information. As part of the review of related party disclosures, FIN-FSA requested the Finnish Accounting Board's opinion on pension commitments in the financial statement information. According to the opinion, accrual-based pension costs for statutory as well as supplementary pensions shall in future be disclosed for, among others, the managing director.²

1 Read more on the topic in the section 'Financial institutions' IFRS financial statements at the centre of international cooperation'.

2 The Accounting Board opinion is available at <http://ktm.elinar.fi/ktm/fin/kirjanpi.nsf> > Lausunnot ja poikkeusluvut > 2013 > Listayhtiön johdon eläkeositoumuksia koskevista liitetiedoista.

In 2013, enforcement by theme targeted interim reports. A review performed by FIN-FSA showed that there were qualitative differences between interim reports. The most material events and business operations were described in the explanatory statement of interim reports, but the effects of these events and operations on the calculations disclosed in the condensed financial statements were not always clear. FIN-FSA assesses that the detail and extent of interim reports need to be developed in many companies.

Due to the uncertainty in the economic operating environment, FIN-FSA continued the goodwill-related enforcement by theme both from the viewpoint of impairment testing and notes disclosed on those tests. The enforcement focused on, among other things, companies' assessment of reasonableness, as the management assumptions on the quality and growth of future cash flows and detail of cash flow projections were inspected. Attention was also paid to note transparency. For example, the intelligibility of sensitivity analysis information and the descriptions of key assumptions still need to be improved.

Development needed as regards disclosure

In 2013, FIN-FSA surveyed the international discussion on disclosures.³ For example, there has been discussion about companies' use of boilerplate phrases in the notes to the financial statements. This means that the notes contain copied boilerplate phrases from IFRS standards or model books without corporate-specific contents. Material information may also fail to reach the investor, if there is too little significant information in the notes or the information has not been clearly presented.

3 FRC/Financial Reporting Council: Cutting Clutter 2011, Discussion Paper 10/2012 Thinking about disclosures in a broader concept, and Feedback Statement 6/2013; EFRAG/European Financial Reporting Advisory Group: EFRAG (+ANC and FRC) Discussion Paper 7/2012 Towards a Disclosure Framework for the Notes, and Feedback Statement on Discussion Paper 4/2013; EDTF/Enhanced Disclosure Task Force: EDTF Report – Enhancing the Risk Disclosures of Banks 10/2012, and Progress Report 7/2013; ESMA/European Securities and Markets Authority: Comments on EFRAG's Discussion Paper 1/2013, and Considerations of Materiality in Financial Reporting 2/2013; CFA Institute/Chartered Financial Analysts: Financial Reporting Disclosures: Investor Perspectives on Transparency, Trust and Volume – July 2013; IASB/International Accounting Standards Board: Survey on Financial Information Disclosure 2012, Disclosure Forum 1/2013, Feedback Statement 5/2013, Discussion Paper – A Review of the Conceptual Framework for Financial Reporting, including a section on disclosures 7/2013, IASB Update 9–11/2013.



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Many aspects must be considered in the development of disclosure (see chart 1). The International Accounting Standards Board (IASB) has taken measures to develop disclosure. An example of this is the IASB short-term plans for changes in the existing standards as regards notes to the financial statements. In its IFRS enforcement, FIN-FSA has already for several years paid attention to the importance to investors of the information in the notes to the financial statements. FIN-FSA agrees with parties that have presented the idea that successful communication through the financial statements is important. The message shall be communicated correctly from the preparer of the financial statements to the reader.

No big changes in the procedures for IFRS enforcement

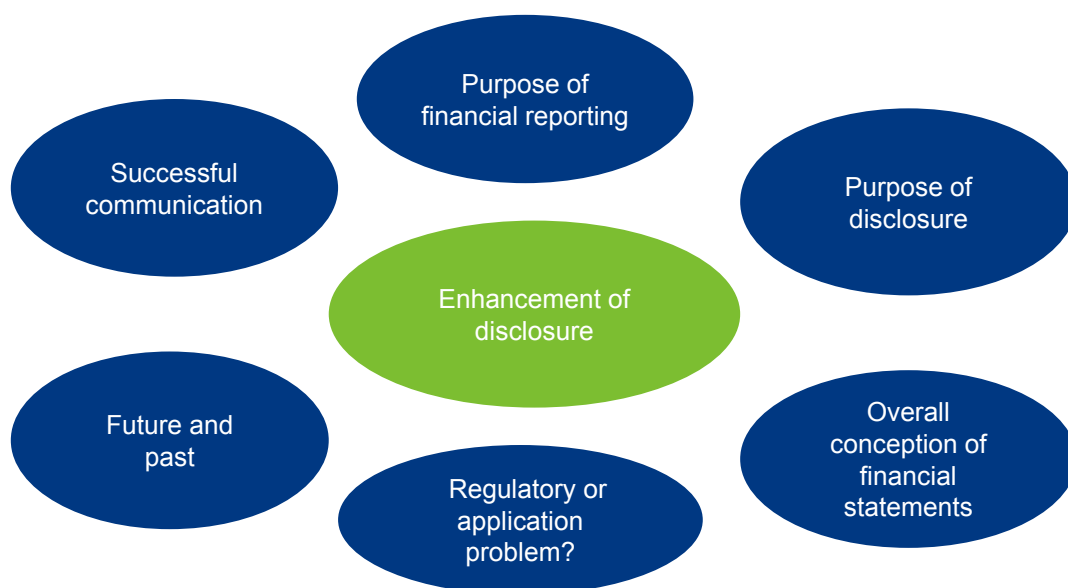
A risk-based approach is used in the enforcement of financial reporting requirements. Sometimes it is proactive as in the so-called full review of financial statements and in enforcement by theme. Enforcement of financial reporting requirements also includes reactive enforcement, when, for example, based on a stock exchange announcement or a complaint, the appropriateness of a company's selected

single accounting methodology is examined. In addition, enforcement of financial reporting requirements includes IFRS enforcement as regards prospectuses. Chart 2 on page 3 shows the IFRS enforcement process.

In the enforcement of financial reporting requirements a new procedure was introduced, when part of the companies selected for the full review of financial statements in 2013 were informed of the selection in advance in December 2012. The new procedure made it possible for the companies to develop their financial reporting before the enforcement started. According to FIN-FSA, the companies have been pleased with the new procedure. FIN-FSA continued the procedure of providing the audit committees of the company Boards with the opening and closing letters on full reviews.

European supervisory cooperation has an increasing impact on IFRS enforcement. European IFRS enforcers jointly decide on next year's priorities and joint examinations are performed increasingly. The priorities for 2014 were published in November 2013.⁴ The purpose is to harmonise European enforcement and produce analyses assessing the application of IFRS standards at European level.

Chart 1. Aspects of the development of disclosure



4 ESMA's priorities for 2014: <http://www.esma.europa.eu/news/Press-Release-ESMA-announces-financial-statements%E2%80%99-enforcement-priorities-2013>.



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Extensive enforcement of compliance with standards on financial instruments

The below table describes the scale of the 2013 and 2012 IFRS enforcement by type of enforcement.

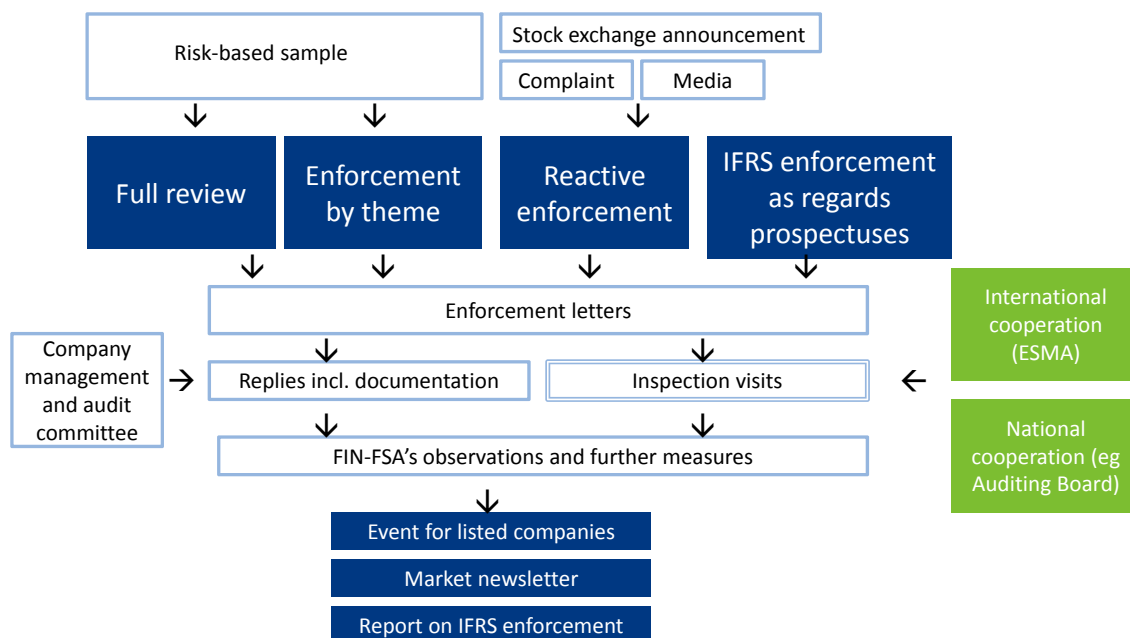
Type of enforcement	Number of enforcement events in 2013	Number of enforcement events in 2012
Full review	14	14
Enforcement by theme	6	4
Reactive enforcement	5	9
IFRS enforcement as regards prospectuses	10	7
Sum total	35	34

The table shows that full review of the financial statements was carried out in 14 companies. In addition to the full reviews performed, theme enforcement was carried out in 6 companies. In 2013 theme enforcement was mainly performed as part of full reviews. FIN-FSA included a lot of detailed questions on theme enforcement sub areas in its full review enforcement letters.

Chart 3 on page 4 shows the priorities of the IFRS enforcement by IFRS standard in 2013 and 2012.

Most of the enforcement observations focused on the application of the standards on financial instruments (IFRS 7 and IAS 39). Most of the questions were posed to financial institutions. The number of observations concerning the application of the standard on impairment of assets (IAS 36), which was subject to theme enforcement, was at normal level. The application of the standard on related party disclosures (IAS 24) was also subject to theme enforcement and as a result the number of questions asked increased from 2012.

Chart 2. Process of the IFRS enforcement



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There was also a normal number of observations as regards the application of the revenue standards (IAS 11 and IAS 18), the standard on presentation of financial statements (IAS 1), on provisions, contingent liabilities and contingent assets (IAS 37), on employee benefits (IAS 19), and on business combinations (IFRS 3). In 2012 a significant part of the observations concerning the application of the standard on income taxes (IAS 12) had been related to the change in tax rate, so the number of questions decreased in 2013. Fewer questions were presented in 2013 than in 2012 about the application of the standard on operating segments (IFRS 8), because FIN-FSA expects a message from the IASB on possible amendments of the standard due to the results of the post-implementation review (PIR). Anyway, the application of IFRS 8 has not been fully satisfactory in Europe and inconsistent application appears.

FIN-FSA urged compliance with IFRS standards in nearly 40% of the enforcement observations

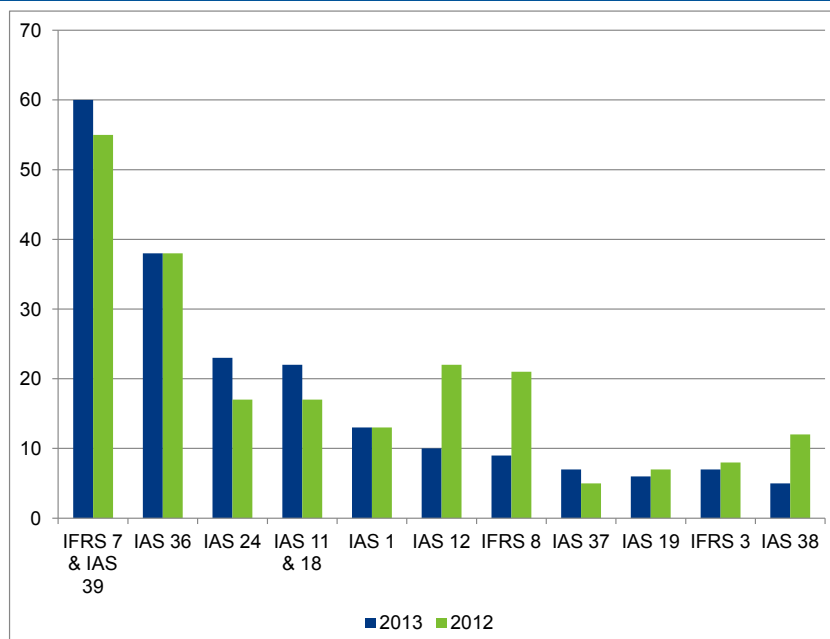
The corrective measures required by the IFRS enforcers are attributable to the policies in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Depending

on the materiality of the errors, the corrective measures required by the enforcer are categorised by ESMA as follows:

- issuance of new financial statements, which also requires a new audit and approval of the restatement by the Annual General Meeting
- retrospective restatement and, in addition, communication to the market by issuing a corrective note immediately after the discovery of an error
- correction in the next financial statements with adjustments of comparatives
- correction in the next financial statements without adjustments of comparatives
- enforcer's recommendation for development of the next financial statements.

FIN-FSA collects statistics of its enforcement measures according to the above mentioned ESMA categories. The pie chart on page 5 shows the distribution of measures required by FIN-FSA in 2013 and 2012.

Chart 3. Focus of enforcement by standard in 2013 and 2012 (number of questions/observations)



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In 2013 retrospective restatements were performed based on 7% of the enforcement observations. Material errors concerning preceding periods must be restated retrospectively.

In addition, FIN-FSA urged compliance with IFRS requirements in succeeding financial reports in no less than one third of the enforcement observations. This means that FIN-FSA did not consider every non-compliance with an IFRS standard as an unambiguous material error in accordance with IAS 8. The assessment of materiality always requires careful and detailed company-specific judgement.

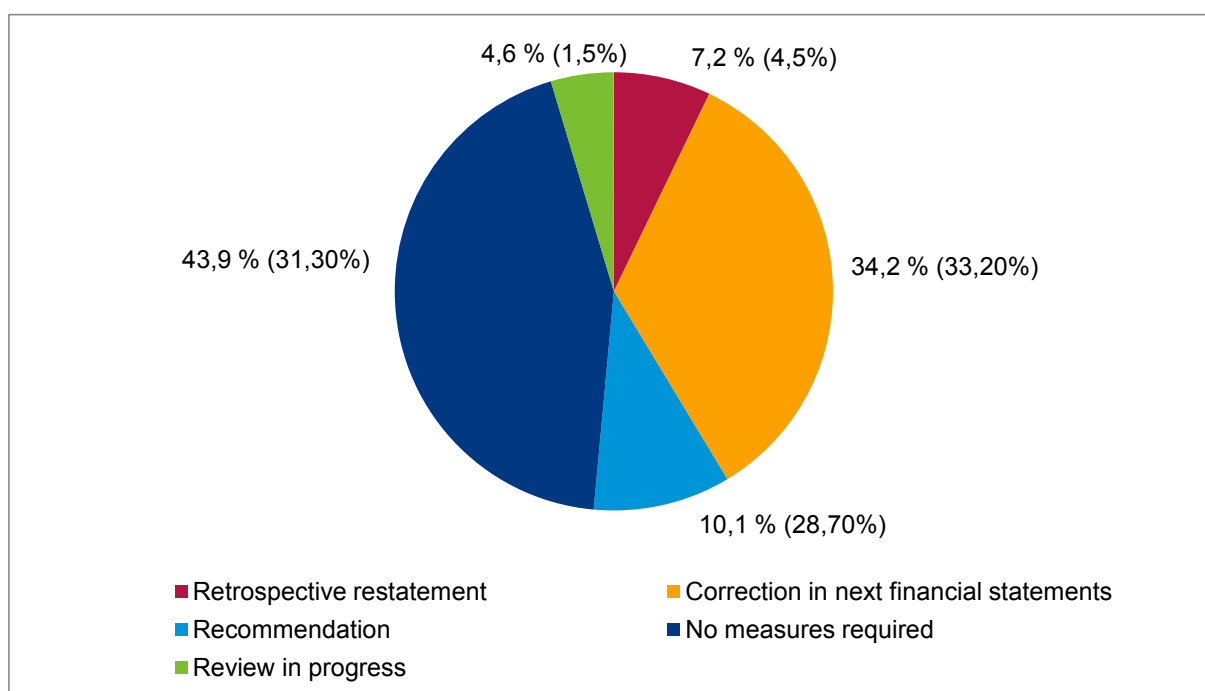
In 2013 the observations covered not only financial information disclosures but also to a significant extent valuation issues. In a few enforcement cases, the companies decided to reassess the value of their balance sheet items based on FIN-FSA enforcement observations. The cases concerned deferred tax assets and goodwill. In every tenth enforcement observation, FIN-FSA recommended development of the next financial statements.

Financial institutions' IFRS financial statements at the centre of international cooperation

In 2013 international activities focused on the management of ESMA's working group for review of the comparability of financial institutions' IFRS financial statements. The review evaluated the IFRS financial statements of 39 European financial institutions from 16 different countries including Finland. According to the review, the information required in IFRS standards was generally disclosed, but there were differences in quality and transparency of the information, which contributes to reducing the comparability of the financial statements. In particular, disclosures of credit risk and forbearance in lending should be improved.⁵

ESMA's Corporate Reporting Standing Committee (CRSC) coordinates all work related to financial reporting, auditing, disclosure of periodic information and storage of regulated information. A Consultative Working Group is also assembling in connection with the CRSC. The group is made up of representatives of the market participants and its task

Chart 4. Distribution of measures required of companies based on individual enforcement observations in 2013 and 2012



⁵ ESMA's review of the comparability of financial institutions' IFRS financial statements is available at: http://www.esma.europa.eu/system/files/2013-1664_report_on_comparability_of_ifrs_financial_statements_of_financial_institutions_in_europe.pdf.



is to hear their views and ideas. The Finnish representatives in the group were Ms Marjaana Alho from Stora Enso (Vice President) and Ms Tuija Soanjärvi, Professional Board Member.

In 2013, nine EECS meetings⁶ were held and FIN-FSA participated in all of them. Finland submitted two enforcement decisions to the ESMA databank. ESMA regularly publishes part of the enforcement decisions and FIN-FSA prepares a summary in its Market newsletter. By the end of 2013 ESMA had published 14 database extracts on enforcement decisions. The aim of the publication of decisions is to promote consistent application of the IFRS standards and transparency of enforcement in Europe.⁷

FIN-FSA is also a member of the IFRS Project Group. The IFRS Project Group is an ESMA working group that prepares ESMA's comments on new IFRS standards and interpretations and changes thereof for the IASB and IFRS IC. In its comments it considers both investor information and standard enforceability. In 2013 the group published written comments on projects concerning, for example, rental agreements, insurance contracts and financial instruments. One of the group meetings was arranged in Helsinki in 2013.

In the beginning of 2013 ESMA published its final feedback statement to the consultation on its document Considerations of materiality in financial reporting that had been out for consultation around the turn of the year 2011–2012. The results of the work of the Materiality Working Group have also been presented to the IASB.

ESMA is revising its guidelines on enforcement of financial reporting requirements for listed companies. In the revised guidelines, the principles included in the standard prepared by ESMA's predecessor CESR⁸ will be transformed into ESMA guidelines. The purpose of the enforcement guidelines is to enable increased harmonisation. In the revised draft guidelines it has been proposed that a common understanding on the contents of a material enforcement decision should almost without exception be ensured in the

EECS prior to the national decision-making. Presently there is no provision on how often decisions should be subjected to preliminary scrutiny. In addition, the new guidelines change the sample of companies. However, the new guidelines will not materially change FIN-FSA's enforcement of financial reporting requirements. FIN-FSA presented the proposed new enforcement guidelines in its Market newsletter 3/2013.⁹

Active national cooperation

FIN-FSA participated in the supervision of auditors through its membership in the Auditing Board of the Central Chamber of Commerce. Ms Tiina Visakorpi is a member of the Auditing Board and Ms Ingalill Aspholm a substitute member. The cooperation with the Secretariat of the Auditing Board that had started in 2010 has continued and FIN-FSA and the Auditing Board focus their supervision on a few jointly examined financial statements. FIN-FSA enforces IFRS compliance in the financial statements and the Auditing Board supervises auditors' auditing of the financial statements. The purpose of the cooperation is to enhance the coverage of supervision pursued by competent authorities regarding financial reports and so promote confidence in financial reporting.

In spring 2013 the Basel Committee on Banking Supervision launched consultations on a document where its requirements on efficient interaction between bank supervisors and auditors have been included as recommendations. The final recommendations will be published in spring 2014. According to the recommendations the task of national bank supervisors is to communicate the contents of the recommendations to the supervised entities and their auditors. FIN-FSA presented the contents of the draft recommendations in a joint meeting with the Ministry of Finance, the Ministry of Employment and the Economy, the Confederation of Finnish Industries, and bank auditors. According to FIN-FSA the recommendations proposed by the Basel Committee would improve the quality of audits in both banks' and other entities supervised by FIN-FSA.

Through its membership in the Accounting Board, FIN-FSA promotes good accounting practice as referred to in the national accounting legislation. Ms Virpi Haaramo is a member

6 European Enforcers' Coordination Sessions (EECS) is an ESMA working group formed by the European IFRS enforcers.

7 Extracts from the EECS database of enforcement decisions are available at: <http://www.finanssivalvonta.fi/fi/Listayhtiolle/IFRS/Julkaisut/EECS/Pages/Default.aspx>.

8 CESR = The Committee of European Securities Regulators.

9 ESMA's revised guidelines on enforcement of financial reporting requirements sent for consultation (Market newsletter 3/2013).



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of the Accounting Board and Ms Reija Anttila a substitute member. Ms Virpi Haaramo also participates in the working group set up in 2013 to amend the Accounting Act.¹⁰

Events for listed companies still popular

In early December FIN-FSA again arranged two events on the subject of listed companies' financial reporting for an audience of about 160 participants. The primary purpose of the events was to communicate the 2013 IFRS enforcement observations to listed companies and auditors, so that the companies can take FIN-FSA's messages into account in their future financial reports. At the events it is also essential to provide information on the IFRS enforcement process, priorities in next year's IFRS enforcement, and possible future changes in the enforcement. Another purpose of the events for listed companies is to assemble interested parties in financial reporting.

Not only enforcement observations were presented at the 2013 events but also topics such as related party disclosures, problems in notes to the financial statements, and large IFRS projects. The results of an ESMA review on the comparability of financial institutions' IFRS financial statements were also presented. At the events, information was furthermore provided as regards issuers' disclosure obligation and observations in FIN-FSA's investor enquiry.¹¹

In the Market newsletter a total of eight articles were in 2013 published on the topic of IFRS enforcement. Appendix 1 to this report contains a more detailed summary of all publications and news releases published in 2013. The Internet information on IFRS enforcement is available at <http://www.finanssivalvonta.fi/fi/Listayhtiolle/IFRS/Pages/Default.aspx>.

For further information, please contact:

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¹⁰ Information on the working group set up to amend the Accounting Act is available at http://www.tem.fi/yritykset/kirjanpito/ajankohtaista_kirjanpitolain_muutokset_tyoryhma_asetettu_ajalle_1.9.2013_-_30.11.2014.

¹¹ The presentation material used at the events for listed companies is available on FIN-FSA's website at: <http://www.finanssivalvonta.fi/fi/Listayhtiolle/IFRS/Julkaisut/Esitykset/Pages/Default.aspx>.



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Appendix 1 The Financial Reporting Division's news items in 2013¹²

Presentations

- Events for listed companies December 2013 - Presentation material

News releases

- [Report on IFRS enforcement in 2012](#): The aim is to ensure the availability of sufficient information on companies' financial position in an uncertain market situation (News release 15 March 2013, 2/2013)

Supervision releases

- [ESMA's review of the comparability of financial institutions' IFRS financial statements](#) (Supervision release 23 December 2013)

Market newsletters and other articles

- [Topical matters at ESMA – Disclosures of non-IFRS performance measures](#) (Market newsletter 4/2013)
- [ESMA published new enforcement decisions](#) (Market newsletter 4/2013, in Finnish)
- [ESMA's revised guidelines on enforcement of financial reporting requirements sent for consultation](#) (Market newsletter 3/2013, in Finnish)
- [Accounting Board opinion published on disclosure of pension commitments for the management in listed companies](#) (Market newsletter 3/2013)
- [Global committee on banking supervision requires efficient interaction between banking supervisors and auditors](#) (Market newsletter 2/2013, in Finnish)
- [European IFRS enforcers published new enforcement decisions](#) (Market newsletter 2/2013, in Finnish)
- [Materiality in IFRS reporting – ESMA's response to comments received](#) (Market newsletter 1/2013, in Finnish)
- [Management's related party disclosures important to investors](#) (Market newsletter 1/2013, in Finnish)

IFRS-reports

- [Report on IFRS enforcement in 2012](#)

Extracts from the EECS database of decisions

- [ESMA publishes 14th Extract from the EECS database of enforcement decisions](#) (29 October 2013)
- [ESMA publishes 13th Extract from the EECS database of enforcement decisions](#) (4 April 2013)

News releases by the European Securities and Markets Authority (ESMA)

- [ESMA publishes a Review of the comparability and quality of disclosures in 2012 IFRS financial statements of listed financial institutions](#) (18 November 2013) Final report
- [ESMA publishes its European common enforcement priorities for 2013 financial statements](#) (11 November 2013)
- [ESMA publishes the Activity Report on the IFRS enforcement in 2012](#) (22 July 2013)
- [ESMA publishes the Consultation Paper on the ESMA Guidelines on enforcement](#) (19 July 2013)
- [ESMA publishes the feedback statement to the consultation on considerations of materiality in financial reporting](#) (14 February 2013)
- [ESMA calls for improvements in disclosures related to goodwill impairment, ESMA Report: Review of 2011 IFRS financial statements related to impairment testing of goodwill](#) (21 January 2013)

¹² <http://www.finanssivalvonta.fi/fi/Listayhtioille/IFRS/Julkaisut/Pages/Default.aspx>.

