



FINANSTILSYNET
THE FINANCIAL SUPERVISORY
AUTHORITY OF NORWAY

Review of listed companies' financial reporting in 2019

Companies listed on Oslo Børs and Oslo
Axess with Norway as their home state

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1 Introduction

Finanstilsynet supervises that annual financial statements (at both group and company level), directors' reports, corporate governance reports, corporate responsibility reports, reports on payments to government authorities, half-yearly financial statements and other financial reporting of issuers whose financial instruments are listed, or for which admission to listing has been requested, on a regulated market in the EEA, are in compliance with laws or regulations. The purpose of the review is to identify significant reporting inconsistencies.

The purpose of the report is to provide information about:

- prioritised areas in Finanstilsynet's review of annual reports for 2019
- other review activities
- closed supervision cases

2 Prioritised areas for annual reports for 2019 and interim reporting in 2020

Prioritised areas in Finanstilsynet's review of entities' annual financial statements will still be IFRS 9 *Financial instruments* and IFRS 15 *Revenue from contracts with customers*.

During 2019, Finanstilsynet reviewed how nine banks comply with the new impairment rules in IFRS 9. The thematic review will be concluded by sending a public letter to the banks and a thematic review report. Finanstilsynet will continue to review banks' compliance with IFRS 9, especially the impairment rules, in various ways.

With respect to IFRS 15 *Revenue from contracts with customers*, Finanstilsynet has reviewed the implementation of IFRS 15 principles through a number of specific entity examinations in 2018 and 2019. Four of these examinations have been finalised. In addition, Finanstilsynet has conducted a desktop review of a number of entities' IFRS 15 disclosures in their financial statements for 2018 and reviewed the entities' reporting to Finanstilsynet.¹ Finanstilsynet will prepare a separate thematic review report with key observations relating to disclosure requirements in accordance with IFRS 15. The report will be published on Finanstilsynet's website. The report will describe the entities' compliance with the disclosure requirements of IFRS 15, especially relating to thorough and entity-specific descriptions of the revenue recognition principles. This includes significant judgements made when applying IFRS 15, disaggregation of revenue, transaction price allocated to the remaining performance obligations and presentation and disclosures relating to contract assets and contract liabilities. When reviewing the financial statements for 2019, Finanstilsynet will also, if necessary, initiate specific entity examinations based on the disclosures provided. With respect to disaggregation of revenue, Finanstilsynet will also review the disclosures in relation to information provided in other parts of the annual report and in other financial reporting.

¹ Reporting from entities subject to financial reporting oversight (KRT-1003):

<https://www.finanstilsynet.no/en/reporting/fellesrapporter/ingeringer/reporting-from-entities-subject-to-financial-reporting-oversight/>

IFRS 16 *Leases* will also be one of Finanstilsynet's prioritised areas when reviewing the annual financial statements for 2019. Finanstilsynet points out that entity-specific and detailed information is expected to be presented on the effects of the implementation and application of IFRS 16, in addition to the assumptions used. This shall also include the entities' estimate of lease term and related sensitivity information about this estimate. Finanstilsynet will initiate a thematic review of IFRS 16 at the beginning of 2020. The thematic review will include a review of selected entities' compliance with key aspects of IFRS 16, along with the quality and scope of disclosures.

In addition to the aforementioned standards, Finanstilsynet will also give priority to IAS 12 *Income taxes* and IAS 7 *Statement of cash flows* and place particular emphasis on IAS 7 paragraphs 44A–44E under 'Changes in liabilities arising from financing activities'. There are various indications that compliance with these requirements under IAS 7 is too weak. In the KRT-1003 report, Finanstilsynet will ask the entities to indicate in which note(s) to the financial statements this information is provided. See also point 4 on the next page on requirements for completing the KRT-1003 report.

Over the past few years, Finanstilsynet has reviewed the entities' compliance with the guidelines on alternative performance measures (APMs). In 2019, Finanstilsynet has pointed out to several entities that they have failed to comply with key parts of the guidelines in their financial reporting, and they have been asked to review these aspects. Finanstilsynet has noted that several of these entities have taken significant steps to improve their compliance with the guidelines in subsequent financial reporting. Finanstilsynet has levelled criticism at the entities' use of APMs in stock exchange announcements that describe expected financial results in future reporting. In these cases, the entities did not comply with the APM guidelines. It is voluntary to use APMs, but if the entities choose to do so, they must comply with the guidelines in their financial reporting. In its review of annual reports for 2019, Finanstilsynet will also give priority to the entities' use of APMs.

Finanstilsynet's priorities are largely concurrent with the prioritised areas of the European Securities and Markets Authority (ESMA).²

3 Other review areas

Content of annual and half-yearly reports

Finanstilsynet stresses the importance of entities' compliance with the formal requirements for the content of annual and half-yearly reports. In prospectuses, for example, Finanstilsynet has revealed that a number of entities fail to enclose documents that are required to be included in a half-yearly report, cf. the requirements of the Securities Trading Act.

² See ESMA's announcement: 'European common enforcement priorities for 2019 annual financial reports': <https://www.esma.europa.eu/press-news/esma-news/eu-enforcers-must-monitor-closely-new-reporting-standards>

Quality of financial reports in prospectuses from entities applying for listing

During 2018 and 2019, Finanstilsynet has in several cases experienced that annual financial statements and other financial reports forming the basis for stock exchange listing, are of inadequate quality. Finanstilsynet has pointed out that the entities must improve their quality assurance procedures. In some cases it has been necessary for entities to publish new versions of their financial reports. In other cases, entities have been required to provide supplementary information in prospectuses to compensate for inadequate information in their financial reporting.

Finanstilsynet expects entities applying for listing to prepare annual reports and other financial reports in accordance with relevant accounting regulations. The control of the prospectus will be stopped until such reports are sent to Finanstilsynet.

4 Deficiencies and errors in reporting of information to Finanstilsynet

Errors in prospectuses

In 2019, Finanstilsynet has imposed a fine on an entity for providing incorrect information in a prospectus. The entity had stated that the auditor had issued an unqualified audit report, even though the auditor had issued a qualified opinion. In Finanstilsynet's opinion, this represented a serious breach of the entity's duty to disclose information when preparing the prospectus.

Weaknesses in entities' reporting to Finanstilsynet (KRT-1003)

In its review of entities' reporting via Altinn form KRT-1003, Finanstilsynet has identified a large number of errors. Examples of errors include: entities report that they have received an unqualified audit report, while the auditor has included emphasis of matter paragraphs or issued a qualified report; entities report a departure from a requirement of an IFRS in accordance with IAS 1.19, without this being the case; and/or the answers provided by the entity to specific questions are incorrect, or inaccurate responses are given where a more comprehensive description is required.

Entities are required to provide complete and correct answers in their reporting. This reporting is essential to Finanstilsynet's risk assessment of the issuers. Finanstilsynet expects the entities to establish satisfactory procedures to ensure that the answers to the questions in KRT-1003 are complete and correct.

Failure to report a modified audit report

Pursuant to Section 5-5 (5) of the Securities Trading Act, if the auditor finds that the financial statements should not be approved as they stand, or the auditor has included emphasis of matter paragraphs or modified its opinion, Finanstilsynet and the regulated market concerned shall be notified accordingly as soon as the audit report has been received. Finanstilsynet has noted that a number of entities did not comply with this requirement relating to their annual reports for 2018. Finanstilsynet expects the entities to comply with this requirement.

5 European Single Electronic Format (ESEF)

Entities that are encompassed by the transparency directive will be required to prepare annual reports in the European single reporting format ESEF from the date the rules are implemented in Norwegian law. ESEF came into force in the EU on 18 June 2019. Further information about ESEF was given at Finanstilsynet's issuer seminar in 2018.³ See also the topic page about ESEF on ESMA's website.⁴

The audit of annual reports will include a confirmation of the mark-up according to ESEF. Finanstilsynet's review will be based on these annual reports.

Entities can on a voluntary basis prepare their annual reports for 2020 based on ESEF.

6 Finalised reviews

Finanstilsynet's previous review of financial reporting was presented in Circular 4/2018. Subsequent to this, the letters in the table below have been published on Finanstilsynet's website.⁵ Several of the cases have been discussed with other national authorities responsible for securities markets in EU countries, cf. the guidelines for when to discuss cases at the international level.

³ Agenda and presentations at Finanstilsynet's seminar on 9 November 2018:

<https://www.finanstilsynet.no/nyhetsarkiv/nyheter/2018/finanstilsynet-inviterer-til-seminar-for-noterte-foretak-9.-november-2018/> [in Norwegian only]

Webcast of the seminar [in Norwegian only]:

<https://www.finanstilsynet.no/nyhetsarkiv/nyheter/2018/seminar-for-noterte-foretak-tilgjengelig-pa-nett/>

⁴ ESEF: <https://www.esma.europa.eu/policy-activities/corporate-disclosure/european-single-electronic-format>

⁵ <https://www.finanstilsynet.no/tilsyn/finansiell-rapportering/offentlige-brev-kontroll-av-finansiell-rapportering/> [in Norwegian only]

Completed reviews	Comment
2019	
Review of financial reporting – Nekkar ASA	The case concerned the entity's application of IFRS 15 on one contract.
Information on the company's use of alternative performance measures in a company announcement – XXL ASA	The case concerned the use of alternative performance measures in a stock exchange announcement in which the entity notified changes in its expectations of future financial results.
Review of alternative performance measures in a company announcements – B2Holding ASA	The case concerned the use of alternative performance measures in a stock exchange announcement in which the entity notified changes in its expectations of future financial results.
Review of financial reporting – Telenor ASA	The case concerned selected parts of the entity's IFRS 15 principles.
Review of financial reporting – AKER BP ASA	The case concerned one element in the entity's principle for revenue recognition, and one element in the calculation of the entity's decommissioning and removal provisions.
Review of financial reporting – Norwegian Finans Holding ASA	The case primarily concerned the entity's application of the loss recognition rules in IAS 39.
2018	
Review of financial reporting – Solstad Offshore ASA	Finanstilsynet made a decision ordering the entity to perform an impairment test in accordance with IAS 36.
Review of financial reporting – Statkraft AS	The case concerned selected parts of the entity's IFRS 15 principles.
Other letters	
Decision on the imposition of a violation penalty – Aqua Bio Technology ASA	The case concerned incorrect information about the auditor's report in a prospectus.
Decision on violation penalty – Havyard Group ASA	The case concerned delayed publication of the issuer's annual report.

In addition to the letters listed in the table, which have also been published on Oslo Børs' NewsWeb, Finanstilsynet has sent letters to listed companies concerning the use of alternative performance measures.

Published letters may be relevant to other listed companies than the ones reviewed, even though the letters address specific circumstances concerning the individual entity.

Finanstilsynet expects the entities to familiarise themselves with the content of the letters sent by Finanstilsynet to other entities and to make sure that their own reporting does not have similar weaknesses.

