



KREDITILSYNET
The Financial Supervisory Authority of Norway

Some accounting-related issues based on the review of the interim financial statements for the fourth quarter 2008

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1. Introduction

Pursuant to section 15-1, paragraph three, of the Securities Trading Act, Kredittilsynet supervises the periodic financial reporting of issuers of transferable securities which are quoted or for which admission for quotation has been requested within the EEA and whose home state is Norway pursuant to the Securities Trading Act, section 5-4. Further rules concerning supervision are stipulated in the Regulations to the Securities Trading Act of 29 June 2007 no. 876, Chapter 13, Part II.

Kredittilsynet's supervision of the periodic financial reporting also includes supervision of interim reporting, and Kredittilsynet has conducted a review of a sample of interim reports for the fourth quarter 2008. Section 2 below discusses the conducted review and the sample. Section 3 below discusses the purpose of and minimum components of interim reports, while section 4 discusses some observations Kredittilsynet has made in connection with the review of the interim financial statements for the fourth quarter 2008.

2. The conducted review and sample

The primary focus of the review of the interim reports for the fourth quarter 2008 was on the presentation and disclosure requirements of IAS 34 *Interim Financial Reporting*, and to a lesser degree recognition and measurement issues. The review of the 2008 annual reports can consequently also include annual reports from issuers whose interim report for the fourth quarter 2008 has been reviewed.

Kredittilsynet reviewed 23 interim reports for the fourth quarter 2008. The issuers were selected after an overall review of the share issuers on the Oslo Stock Exchange whose home state is Norway. Some of the issuers were selected because they were assessed to have severe financial difficulties and a high level of risk and uncertainty associated with the going concern assumption. Other issuers in the sample were selected on a random sample basis. The sample cannot be regarded as representative because of the selection method.

The sample consists of issuers listed on both the Oslo Stock Exchange and on Oslo Axess. Both EU/EEA registered issuers and issuers from countries outside the EEA (third country issuers) whose home state is Norway are represented in the sample. The sample includes issuers that apply IFRS as adopted by the EU and issuers that apply IFRS as adopted by IASB. Issuers that report pursuant to GAAPs other than IFRS were not included in the review.

3. The purpose and components of interim reports

The interim financial report is intended to provide an update on the latest complete set of annual financial statements and report changes in financial position and performance since the most recent annual financial report. Thus one fundamental prerequisite for an interim report is that users also have access to the most recent annual financial report of that entity. The interim report focuses on new activities, new events and new circumstances, and does not duplicate information previously reported, cf. IAS 34.6 and 34.15.

Nonetheless, IAS 34 stipulates some minimum requirements concerning the content of an interim report and the information that must be disclosed in the explanatory notes.

According to IAS 34.8¹ an interim report shall include, at a minimum, the following components:

- a) condensed balance sheet
(*a condensed statement of financial position*),
- b) condensed income statement
(*a condensed statement of comprehensive income, presented as either;*
 - i) *a condensed single statement; or*
 - ii) *a condensed separate income statement and a condensed statement of comprehensive income*),
- c) condensed statement that shows either i) all changes in equity or ii) changes in equity other than those arising from capital transactions with and distributions to owners,
(*a condensed statement of changes in equity*),
- d) condensed cash flow statement
(*a condensed statement of cash flows*), and
- e) selected explanatory notes.

In addition to the components listed above, all of the interim reports reviewed by Kredittilsynet contained a "management report". See point 4.3 below for observations concerning the components.

4. Observations

4.1 Disclosure requirements for interim reports

The information requirements in IAS 34 are presented as requirements concerning the explanatory notes. However, information may be left out if the information appears elsewhere in the interim report, cf. IAS 34.16. This does not, however, include current information such

¹ IAS 34.8 has been amended as a result of revision of IAS 1. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. The amended terminology is stated in brackets.

as, for example, stock exchange reports or presentations prepared in connection with the presentation of the interim reports.

One common feature of the reviewed interim reports could be said to be the fact that they are not complete and independent enough in relation to their discussion of major and significant events in the quarter. In several instances an event about which information should be disclosed in the interim report, is better and more comprehensively discussed in other information, such as stock exchange reports or quarterly presentations.

Pursuant to IAS 34.15 interim reports must provide explanation of events and transactions that are significant to an understanding of the changes in an entity's financial position and performance since most recent annual financial statements. IAS 34.16 stipulates that the information shall normally be reported on a year-to-date basis. A number of the interim reports come across as somewhat discrete documents that only focus on the information requirements in relation to the previous quarter. Thus these reports do not satisfy the requirements of IAS 34.15 and 34.16 since the user must read all of the interim reports previously published in 2008 to gain a full overview of what has happened since the most recent annual financial statements (2007).

In future interim reports, Kredittilsynet expects the issuers to disclose information about events that are significant to an understanding of the changes in the issuer's financial position and performance of the entity, both in the current interim period and since the most recent annual financial statements, also if such information is disclosed elsewhere.

4.2 Disclosure of compliance with IFRS and statement concerning accounting policies and methods computation

If an entity's interim financial report complies with IAS 34, that fact shall be disclosed, cf. IAS 34.19 and IAS 34.8 e). Furthermore, the interim report shall contain a statement that the same accounting policies and methods of computation are followed in the interim financial statement as compared with the most recent annual financial statements, or, if those policies or methods have been changed. In addition, a description of the nature and effect of the change shall be disclosed, cf. IAS 34.16 a). This information is missing for some of the issuers. All the issuers that have not disclosed this information are third country issuers.

Kredittilsynet would like to emphasize that interim reports shall state whether they are presented in accordance with IAS 34 and shall contain a statement concerning the accounting policies that have been applied. Kredittilsynet expects all issuers to present such information in subsequent interim reports.

4.3 Components of interim reports

It follows from IAS 34.8-10 that entities must present either condensed or complete financial statements. All of the reviewed issuers present condensed quarterly financial statements containing the balance sheet, income statement and cash flow statement.

Pursuant to IAS 34.8 c), interim reports shall also contain a condensed statement of changes in equity for the accounting periods stipulated by IAS 34.20 c). A few issuers lacked a statement concerning changes in equity.

Kredittilsynet expects that the issuers will present a statement of changes in equity in subsequent interim reports.

The statement of changes in equity shall include, at a minimum, the same number of categories and total lines as the most recent annual financial statements, cf. IAS 34.10. A number of issuers do not specify the various categories of equity, instead they only contain one column for total equity in the interim statement of changes in equity.

Kredittilsynet expects the issuers to present the equity statement in accordance with the requirements in IAS 34.10 in subsequent interim reports.

4.4 Presentation

The degree of condensation in the reviewed interim reports varies greatly. Only some of the reviewed interim reports contain complete statements where all the lines in the income statement, balance sheet, statement of changes in equity and cash flow statement presented in the annual financial statements are also included in the interim report.

Some of the reviewed reports contain very condensed income statements and balance sheet, and, for example, only present total current and non-current assets and liabilities in the balance sheet. A number of the interim reports contain a three-line cash flow statement that only states the total cash flows from operational, financial and investment activities.

It follows from IAS 34.10 that if an entity publishes a set of condensed financial statements in its interim report, those condensed statements shall include, at a minimum, each of the headings and subtotals that were included in the most recent annual financial statements. Additional items or notes shall be included if their omission would make the condensed interim financial statements misleading. IAS 34.12 refers to IAS 1 *Presentation of Financial Statements*² for guidance on structure of financial statements. It follows from IAS 1.13 (new 1.15) that the financial statements shall present fairly the entity's financial position and performance, and from IAS 1.15 c) (new 1.17 c) that the information shall be presented in a manner that provides relevant, reliable, comparable and understandable information. Furthermore, IAS 1.29 (new 1.29) states that an entity shall present each material class of similar items separately. Items of a dissimilar nature or functions shall be presented separately

² This circular refers to IAS 1 revised in 2003 and amended in 2005. References to "new" IAS 1 (revised in 2007) with mandatory entry into force for financial statements that cover periods beginning after 1 January are stated in brackets.

unless they are immaterial. These provisions in IAS 1 also apply to interim financial statements, cf. IAS 1.3 (new 1.4).

Very condensed statements will normally not provide the users with enough information to be able to assess the entity's change in financial position since the most recent annual financial statements or to analyse trends and development traits. A balance sheet that only presents total current and non-current assets and liabilities in the balance sheet and a three-line cash-flow statement cannot, in Kredittilsynet's opinion, normally be said to present information in a manner that provides relevant, reliable, comparable and understandable information, cf. IAS 1.15 c) (new 1.17 c), and nor will they normally satisfy the requirement in IAS 1.29 (new 1.29) concerning the separate presentation of material items. In Kredittilsynet's opinion the information in annual financial statements is often so condensed that it would often be necessary to include the same lines presented in annual financial statements in the interim reports.

Kredittilsynet expects to see less condensed statements in subsequent interim reports.

4.5 Basic and diluted earnings per share

Pursuant to IAS 34.11 there is a requirement that basic and diluted earnings per share shall be presented on the face of the income statement for all periods that are presented pursuant to IAS 34.20 b). Kredittilsynet has observed that a small number of the issuers disclose neither the basic nor the diluted earnings per share. Some issuers have only stated the basic earnings per share even though there is a specific requirement to present both the basic and the diluted earnings per share. This still applies when these two values are the same. In some cases the earnings per share is not presented as part of the income statement, but as part of the management report.

Kredittilsynet expects that earnings per share information will be disclosed in accordance with IAS 34.11 in subsequent interim reporting.

4.6 Related party transactions

IAS 34.16 and 34.17 j) require that information about related party transactions is disclosed on a year-to-date basis. A number of issuers disclose no information about related party transactions, even though there has been such transactions according to their annual financial statements for 2008.

Kredittilsynet expects issuers to disclose information about related party transactions in line with the requirements of the standard in subsequent interim reporting.

4.7 Going concern disclosure

It follows from IAS 1.23 (new 1.25) that when preparing the financial statements management shall assess of an entity's ability to continue as a going concern. Furthermore, it states that even if the management concludes that the financial statements can be reported on the basis of a going concern assumption, in cases where material uncertainties exists that could cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed. This applies to the preparation both of annual financial statements and interim financial statements, cf. IAS 1.3.

All of the reviewed interim reports were prepared on the basis of a going concern assumption. Material uncertainty about their ability to continue as a going concern can be linked to a number of the issuers and several of them disclose information about such uncertainty in subsequently submitted annual financial statements for 2008, though without information being disclosed about the uncertainty associated with its ability to continue as a going concern being disclosed in the interim report for the fourth quarter as required by the standard.

Kredittilsynet expects that issuers will disclose information about the uncertainty associated with the going concern assumption in subsequent interim reports. In such situations it may also be necessary to disclose information about credit and liquidity risk, cf. section 3.9 below.

4.8 Credit and liquidity risk

Pursuant to IAS 34.15 an interim report shall include disclosures that make it possible to understand the changes in the issuers financial positions since the most recent annual report. This means that there could also be a requirement to disclose information in the notes about matters in excess of the minimum requirements listed in IAS 34.16 and 34.17.

The general conditions in the financial markets at the time the fourth quarter reports were submitted were characterised by uncertainty and instability. The reports that were reviewed included reports from issuers with high levels of credit and liquidity risk, and where the issuer's credit and liquidity risk appears to have changed significantly since the annual report for 2007. In the opinion of Kredittilsynet, a number of the issuers have not disclosed sufficient and supplementary information about the credit and liquidity risk to understand changes in the issuer's financial position.

When preparing interim financial statements, Kredittilsynet expects issuers to assess whether or not there has been so significant changes in credit and liquidity risk that it is necessary to include additional disclosures to make it possible to understand changes in the issuer's financial position since the most recent annual financial statements. The disclosures should in such circumstances be prepared in accordance with the requirements concerning information about credit and liquidity risk in IFRS 7 *Financial Instruments: Disclosures*.

4.9 Classification of non-current liabilities in the event of default and/or breaches of covenants

IAS 34.12 refers to IAS 1 when it comes to structure of financial statements. IAS 1.65-66 (new 1.74-75) refers to situations when an entity breaches a provision of a long-term agreement with the effect that the liability is payable on demand but where the lenders has agreed not to demand repayment through the granting of a waiver. In the event of default or breaches of covenants prior to the end of the reporting period, IAS 1 could require a reclassification of the loan to current liabilities even if a waiver is received prior to the end of the reporting period. This will be the case if, due to the short duration of the waiver(s), there is no unconditional right to postpone settlement of the obligation for at least 12 months from the balance sheet day, cf. IAS 1.65-66 (new 1.74-75). In one case the review uncovered a lack of reclassification from non-current to current liabilities when a breach of loan conditions existed and no waiver had been received that provided an unconditional right to postpone settlement for at least 12 months.

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