



FINANSTILSYNET

THE FINANCIAL SUPERVISORY
AUTHORITY OF NORWAY

Review of listed companies' financial reporting in 2020

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

DATE:

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Introduction

Finanstilsynet supervises that the 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 reports 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. Through 2020, as a consequence of the Covid-19 pandemic, Finanstilsynet has published several statements on reporting and accounting matters on www.finanstilsynet.no. When warranted by the situation, Finanstilsynet will publish additional statements on its website.

The purpose of this report is twofold:

- 1) Provide information about prioritised areas in Finanstilsynet's review of annual reports for 2020.
- 2) Provide information about completed review activities.

PART 1: Prioritised areas in the review of financial statements for 2020

Review of annual financial statements

Prioritised areas in Finanstilsynet's review of companies' annual financial statements for 2020:

IAS 1 *Presentation of Financial Statements*

- Going concern assumptions
- Significant judgments and estimation uncertainty
- Presentation of and disclosures on Covid-19 related items

IAS 36 *Impairment of assets*

- Impairment indicators
- Handling of increased uncertainty and use of scenario analyses
- Disclosures on estimates and key assumptions and any changes thereto

IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments – Disclosures*

- Liquidity risk
- Reverse factoring
- Measurement of banks' expected credit losses
- Disclosures on banks' expected credit losses

IFRS 16 *Leases*

- Information on any rent concessions as a result of Covid-19
- Disclosures required by IFRS 16.53

- Maturity analysis of lease payments pursuant to IFRS 16.58
- Additional qualitative and quantitative information on leases pursuant to IFRS 16.59

The choice of prioritised areas is influenced by the Covid-19 pandemic. Finanstilsynet expects the companies to provide entity-specific information about the effects of the pandemic, including specific and concrete information about key judgements. In addition to the priorities described above, Finanstilsynet will, as in previous years, review issues that are material to the individual issuer.

In 2020, Finanstilsynet has published four thematic review reports referred to below. In addition, Finanstilsynet has carried out a thematic review of disclosures related to IAS 7. Experience gained through the work on the thematic reviews will be used as a basis for Finanstilsynet's review activities and the scope and design of the reviews of the 2020 annual financial statements. At the present time, no major IFRS-based thematic reviews are planned in 2021. Instead, review activities will target individual companies.

Finanstilsynet's priorities are largely in line with the prioritised areas of the European Securities and Markets Authority (ESMA).¹

Review of other financial information

Alternative performance measures

Finanstilsynet will continue to give priority to companies' compliance with the ESMA guidelines for alternative performance measures. When reviewing the 2020 financial statements, particular emphasis will be placed on how the companies reflect the impact of Covid-19 in their alternative performance measures. Finanstilsynet expects the companies to familiarise themselves with and present alternative performance measures in accordance with the guidelines² published by ESMA. The guidelines provide information on how items impacted by Covid-19 should be handled and presented using alternative performance measures.

Sustainability reporting

High-quality sustainability reporting is necessary to enable stakeholders to assess the impact the company has on society and the environment, and how sustainability affects the company's risk assessments and decision-making processes. The information provided should be relevant, consistent and material. There is also a need for quantitative information that is comparable and can be measured over time. Finanstilsynet has carried out a survey of companies' sustainability reporting for 2019, and significant deficiencies relating to existing reporting practices were revealed. Finanstilsynet will consider various measures to help ensure better reporting in this area and will initially consider following up whether the companies have taken climate risk into account in their valuation of balance sheet assets.

¹ [European Common Enforcement Priorities 2020](#)

² [ESMA32-51-370](#) Questions and answers – *ESMA Guidelines on Alternative Performance Measures (APMs)*, 17 April 2020 (Q&A 18)

PART 2: Completed review activities.

Finanstilsynet carries out various forms of financial reporting reviews. An overview of completed review activities in 2020 can be found below.

2.1 Thematic reviews and survey

Thematic inspection IFRS 9 *Financial instruments*

Finanstilsynet has conducted a thematic inspection of the implementation of the requirements regarding credit losses in IFRS 9 *Financial instruments* in nine banks. The inspection aimed to review how the banks comply with the new expected credit loss requirements that came into force on 1 January 2018. As part of the thematic inspection, the banks' models and financial statements in selected areas described in IFRS 9 were reviewed.

The nine banks have received reports about aspects that in Finanstilsynet's view should be improved or amended. In this connection, Finanstilsynet has made no further assessment of loss allowances for individual credit exposures, nor has it said anything about the individual bank's general impairment level.

The summary report provides a description of individual topics addressed during the thematic inspection, including a definition of default, underlying models and estimates, adjustment for forward-looking information, identification of loans with a significant increase in credit risk and disclosures. The report also describes the banks' recognition of assets and companies repossessed from customers who have defaulted on their loans.

The individual reports and the summary report are based on the regulatory framework for banks at the time of the inspection. Finanstilsynet does not factor in how the banks have assessed the significant deterioration of the Norwegian and international economy resulting from the impact of Covid-19. However, the summary report includes some general reflections related to the assessment of expected credit losses in 2020 and associated disclosures.³

Thematic review IFRS 16 *Leases*

During 2020, Finanstilsynet conducted a thematic review of companies' implementation of IFRS 16 *Leases*, aiming to review how ten selected companies have implemented the new accounting standard on leases that came into force on 1 January 2019. The thematic review was carried out by requesting information from the selected companies.

According to IFRS 16, it is the economic substance of the leases that should be reflected when accounting for the lease. This provides significant scope for exercising discretion and for using various estimates and affects the financial statements both at recognition and in subsequent periods.

Finanstilsynet has made observations relating to presentation and disclosures, including

³ [Summary report from thematic inspection of recognition of credit losses according to IFRS 9](#)

assessments of material information, uncertainty in estimates and information in interim reports as at 30 June 2020. Finanstilsynet has also made some observations concerning the companies' determination of the incremental borrowing rate and lease term, as well as their assessment of impairment of right-of-use assets.

There are generally few entity-specific and concrete disclosures on leases. Also, little qualitative information is given about the assumptions used apart from what is explicitly required by the standard and pure reproduction of the text in the standard. Finanstilsynet emphasises the importance of considering the disclosure objective and making materiality judgments when evaluating which information to include in the disclosures.

Thematic review IAS 7 *Statement of cash flows*

During 2020, Finanstilsynet conducted a thematic review of compliance with the disclosure requirements in IAS 7 *Statement of cash flows*, with particular emphasis on the disclosure requirements in IAS 7.44A-44E 'Changes in liabilities arising from financing activities'. Based on some indications of weak compliance with these requirements in IAS 7, Finanstilsynet wanted to survey the compliance of twelve selected companies with the disclosure requirements in the financial statements for 2019.

Finanstilsynet asked the companies to indicate in their reporting to Finanstilsynet (KRT 1003) for 2019 in which note(s) to the financial statements this information is provided. These answers formed the basis for selecting companies for review. Finanstilsynet observed wide variation in the reports with respect to where the requested information could be found. Some companies stated that the information could be found in the accounting principles or directly in the statement of cash flows, while others referred to between one and five different notes. Finanstilsynet also observed that some companies made inadequate or incorrect references.

In accordance with IAS 7.44A, an entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. IAS 7.44B–E further specifies the disclosures that may be required and in what way they may be provided.

Finanstilsynet found that about half of the twelve selected companies have provided satisfactory and adequate disclosures. The remaining companies failed, to varying degrees, to provide adequate reconciliations or disclosures. Some companies failed to reconcile the carrying amount of financial liabilities related to lease liabilities according to IFRS 16 and financing activities included in the statement of cash flows. Some of the companies have made some kind of reconciliation, but it does not provide sufficient information to understand changes in the liabilities in the balance sheet that arise from financing activities. Furthermore, Finanstilsynet has observed that one company has provided no explanation or reconciliation of changes in the liability, even though the company had external bank debt and lease liabilities according to IFRS 16 during the period. In Finanstilsynet's view, information about changes in liabilities arising from financing activities is requested by and of importance to investors and other users of the financial statements. The review has revealed that a number of companies have an improvement potential, and Finanstilsynet expects these companies to comply with the requirements of IAS 7.44A in future reporting.

A general observation is that the companies that have chosen to fulfil the disclosure requirement by providing a reconciliation between the opening and closing balances in a

simple and transparent manner, as exemplified in IAS 7.44D, provide users with the necessary information. If the information is provided in one note, it is also easier for the users of the financial information to get an overview of the changes and link them to the statement of financial position and the statement of cash flows. If the information provided in different notes, it becomes less accessible, which makes it more challenging to get a complete overview. Finanstilsynet would like to emphasise that it is nevertheless important that the companies have good references in the statement of cash flows to the notes where the disclosures required under IAS 7.44A are provided. It is also pointed out that if the disclosures are provided in combination with disclosures of changes in other assets and liabilities, it follows from IAS 7.44E that the changes in liabilities arising from financing activities shall be disclosed separately from changes in those other assets and liabilities.

Thematic review IFRS 15 *Revenue from contracts with customers*

In December 2019, Finanstilsynet published the report *IFRS 15 – Disclosures and presentation in annual financial statements*⁴, where it made a number of observations of 20 companies' disclosures and presentation according to IFRS 15 based on a desktop review of the 2018 financial statements. Finanstilsynet pointed out that there was significant room for improvement for the majority of the companies in the review. In the report, the observations made focused on the following four areas and on whether the companies met the disclosure requirements in these areas:

- accounting policy disclosures and significant judgments (including disclosures on identifying performance obligations, determining the transaction price, allocating the transaction price and satisfaction of performance obligations);
- presentation of contract assets and contract liabilities and related disclosures
- disaggregation of revenue
- transaction price allocated to the remaining performance obligations.

Based on the observations concerning the general quality and extent of disclosures Finanstilsynet also questioned whether the companies have sufficiently considered if they fulfilled the overall disclosure objective in IFRS 15.

With respect to the 2019 financial statements, Finanstilsynet has carried out the same review of IFRS 15 disclosures at ten companies, three of which were also included in the review for 2018. In the report *IFRS 15 – Follow-up of disclosures and presentation in annual financial statements* (available in Norwegian only), Finanstilsynet's observations are summarised and compared with the previous year's observations.

The observations concerning the 2019 financial statements are largely consistent with the observations concerning the 2018 financial statements. Finanstilsynet therefore still observes that there is significant room for improvement for the majority of the companies in the review. Finanstilsynet also notes that there are inconsistencies between what the companies report to Finanstilsynet, such as significant judgments (Altinn reporting (KRT-1003⁵)), and what is reported to be significant judgments in the annual financial statements.

⁴ <https://www.finanstilsynet.no/contentassets/7cbc67271b3c41bc99f5b6b9cad27fcc/ifrs-15-disclosures-and-presentation-in-annual-financial-statements.pdf>

⁵ Reporting from entities subject to Finanstilsynet's financial reporting oversight (KRT-1003): <https://www.finanstilsynet.no/en/reporting/fellesrapporter/ingeringer/reporting-from-entities-subject-to-financial-reporting-oversight/?id=>

Survey of listed companies' sustainability reporting

Finanstilsynet has reviewed the companies' reporting of sustainability information and climate risk. The survey included 209 listed companies and was based on the companies' self assessments of the sustainability reporting to Finanstilsynet. The survey focused on how the companies work with sustainability reporting, what information they report and how this information is presented, and is based on the requirements of the Accounting Act, Section 3-3 c on social responsibility reporting. The survey is also based on the content of EU legislation that has not yet been implemented in Norwegian law, but is expected to enter into force shortly.

A report with the results of the survey was published on Finanstilsynet's website in September 2020⁶ and shows that the current reporting practices have significant deficiencies. Key findings from the survey:

- Many companies have a sustainability strategy that has been endorsed by their board of directors and management.
- Little information is provided on risk and materiality assessments.
- Few companies report the financial consequences of risks related to sustainability and climate change or take this into account in the valuation of assets and liabilities.
- Climate risk reporting is limited, and the risks are generally not quantified.

The report will form the basis for Finanstilsynet's further supervisory activity. The objective of the report is to provide guidance for the companies in their further work on sustainability reporting.

2.2 Review of alternative performance measures

In 2020, Finanstilsynet has reviewed the financial reporting of 14 listed companies. Ten annual reports for 2019, four half-yearly reports for 2020 and a selection of stock exchange statements have been reviewed for compliance with the guidelines for alternative performance measures (APMs).

Finanstilsynet would like to highlight the following observations:

- Although there are still cases of inadequate disclosures, the situation has improved, as the companies provide the required information on the use, definition and reconciliation of the alternative performance measures used.
- Several of the companies appear to fail to understand the definition in section 17 of the guidelines. This is a broad definition which with some exceptions will encompass all financial measures other than those defined or specified in the applicable financial reporting framework. This means that financial measures such as EBIT, operating profits and key figures fall within the definition and scope of the guidelines when APMs are presented outside the financial statements.
- The labels used on alternative performance measures that do not reflect the APM's content and/or a label that must be considered identical or similar to a measure defined or specified in the applicable financial reporting framework. In consequence, users

⁶ [Survey of listed companies' sustainability reporting](#)

may not be able to adequately assess the APM. If this is combined with lack of information about the APM, users may receive misleading information.

- Alternative performance measures are given more attention than financial measures.
- Thus far, no companies have been observed to change or introduce new alternative performance measures as a result of Covid-19.

In December 2019, ESMA published a report⁷ on European companies' use of alternative performance measures and their compliance with the guidelines. Finanstilsynet encourages the companies to familiarise themselves with ESMA's findings and recommendations, as discussed in the report.

2.3 Finalised reviews

Finanstilsynet's letters to companies published after the previous report on the review of financial reporting for 2019, are listed below.

When deemed necessary by Finanstilsynet, the cases are discussed with other national authorities responsible for securities markets in Europe, cf. the guidelines for when to discuss cases at the international level.

Public letters on the review of financial reporting	
2020 (available in Norwegian only)	Comments
Review of financial reporting – Solon Eiendom ASA	In this case, Finanstilsynet pointed out, among other things, that the annual report must analyse the figures that have been recognised and include an adequate description of sales contracts entered into and the key risks and uncertainties related to transactions with Solon Realkapital AS.
Inspection report – Thematic inspection IFRS 9 in Bank Norwegian	In all of these cases, Finanstilsynet reviewed the bank's use of IFRS 9 with respect to expected loss allowances.
Inspection report – Thematic inspection IFRS 9 in DNB	
Inspection report – Thematic inspection IFRS 9 in Helgeland Sparebank	
Inspection report – Thematic inspection IFRS 9 in Sandnes Sparebank	
Inspection report – Thematic inspection IFRS 9 in Komplet Bank	
Inspection report – Thematic inspection IFRS 9 in Sparebank 1 SMN	
Inspection report – Thematic inspection IFRS 9 in Sparebanken Sør	
Inspection report – Thematic inspection IFRS 9 in Sparebanken Vest	
Inspection report – Thematic inspection IFRS 9 in Sparebanken Øst	

⁷ <https://www.esma.europa.eu/press-news/esma-news/esma-cu-issuers-need-improve-their-disclosure-alternative-performance-measures>

Review of financial reporting – Skagerrak Sparebank	The case concerned the obligation to consolidate subsidiaries.
Review of financial reporting – Salmenes Camanchaca S.A.	The case concerned a number of issues, but primarily the valuation of fish.
Review of financial reporting – Aqua Bio Technology ASA	The case concerned a number of issues, but primarily the valuation of inventory.
2019	
Review of financial reporting – Melhus Sparebank	The case concerned the bank's disclosures in the 2018 annual financial statements, including disclosures related to losses on loans and guarantees.

Public letters on the review of alternative performance measures	
2020	Comments
Norwegian Finans Holding ASA/Bank Norwegian AS	The case concerned various issues, though the main issue was whether the labelling and use of some APMs were likely to mislead users.
Axactor SE	The case concerned various issues, though the main issue was the use of an APM label that was likely to mislead users.

Other letters	
2020	
Decision on administrative fine - Havyard Group ASA	Late publication of periodic financial reports
Decision on administrative fine – Care Bidco	
Decision on administrative fine – Havilafjord	

Thematic reviews and survey	
2020	
IFRS 15	
Thematic inspection – Recognition of credit losses according to IFRS 9	
Survey of listed companies' sustainability reporting	
2019	
IFRS 15 – Disclosures and presentation in annual financial statements	

In addition to the above supervision cases, Finanstilsynet may, after reviewing annual financial statements, also send a letter to point to any weaknesses and deficiencies without opening an ordinary supervision case. Such letters are not published on Finanstilsynet's website.

2.4 Reporting weaknesses and deficiencies

Content of annual and half-yearly reports

On 24 June 2020, Finanstilsynet published an overview of deficiencies in listed companies' annual financial statements⁸ after reviewing the financial statements for 2019. Three companies had failed to publish an audit report. Five companies had failed to publish a declaration of responsibility. One company had failed to publish a report on payments to government authorities pursuant to Section 5-5a of the Securities Trading Act. One company had failed to provide a statement on social responsibility, cf. Section 3-3c of the Accounting Act.

On 23 October 2020, Finanstilsynet published an overview of deficiencies in listed companies' half-yearly reports.⁹ Ten companies had failed to publish a declaration of responsibility. Finanstilsynet also sent letters to 19 companies whose declaration was incomplete. These companies failed to clearly state the name and position of those responsible for the declaration. The companies were requested to rectify this in future reporting.

Companies that have failed to publish formal documents	
Annual report 2019	Half-yearly report 2020
Failure to publish a declaration of responsibility:	
Strongpoint ASA	Bank Norwegian AS
TGS Nopec Geophysical Company ASA	Gaslog Ltd.
Virzt Holding AS	Havilafjord AS
Hafnia Limited	Infront ASA
Havilafjord AS	Insr Insurance Group ASA
	Lerøy Seafood Group ASA
	Norgesgruppen ASA
	Norwegian Finans Holding ASA
	Salmones Camanchanca S.A.
	Storm Real Estate ASA
Failure to publish an audit report:	
Interoil Exploration and Production ASA	
Northern Drilling LTD	
Vlistin Pharma ASA	
Failure to publish a report on payments to government authorities:	
BW Energy Limited	
Failure to publish a statement on social responsibility:	
Otiga Group AS	

⁸ [Deficiencies in the 2019 annual financial statements](#) (in Norwegian only)

⁹ [Half-yearly reports for listed companies 2020 – failure to provide a declaration of responsibility etc.](#) (in Norwegian only)

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

In its review of companies' reporting via Altinn form KRT-1003, Finanstilsynet has identified a large number of errors. Examples of errors include: companies report that they have received an unqualified audit report, while the auditor has included emphasis of matter paragraphs or issued a qualified report; there are inconsistencies with information provided in the annual financial statements, e.g. for *Revenue from contracts with customers* or the statement of cash flows.

Companies are required to provide complete and correct answers in all correspondence with Finanstilsynet, including in their reporting. Finanstilsynet expects the companies to establish satisfactory procedures to ensure that the answers to the questions in KRT-1003 are complete and correct.

