NASDAQ STOCKHOLM
MONITORING OF PERIODIC FINANCIAL INFORMATION 2014

This version in English is a summary of the official report in Swedish, which is available on the Exchange´s website http://www.nasdaqomx.com/listing/europe/surveillance/stockholm/decisionsforcompaniesfinancialreporting

SUMMARY

NASDAQ OMX Stockholm AB ("the Exchange") is responsible for monitoring financial information produced by the companies listed on the Exchange. This responsibility includes issuing a report each year regarding the review performed, which must contain information regarding the monitoring activities and the results of the review. The responsibility stems from the provisions contained in Chapter 16 of the Securities Market Act (2007:528) and the Swedish Financial Supervisory Authority's Regulations (FFFS 2007:17). The Exchange publishes its report before the year-end in order to give issuers the opportunity to use the results of the monitoring in the preparation of their upcoming annual accounts. A preliminary observations paper was issued to all listed companies on 6 October 2014.

The monitoring for 2014 included annual accounts of 91 (2913: 93) issuers as well as the majority of the interim reports published by all issuers. Monitoring sees primarily at the adherence to the IAS Regulation and the Annual Accounts Act.

The most common issues resulting in criticism and remarks in this year's monitoring of financial information refer to IAS 36 (Impairment of Assets) and IAS 1 (Presentation of Financial Statements). The Exchange notes that impairment disclosures still count for the majority of the shortcomings. We will therefore focus on these again with next year's monitoring. More details about IAS 1 are given in the paragraph *"Comments per standard*". The result of this year's monitoring confirms the issuers' financial reports are of good quality, even though there is room for improvements.

From 2014 onwards, the Exchange has withdrawn the requirement for quarterly financial reports in accordance with IAS 34 for the first and third quarter as a consequence changes made in EUs Transparency Directive. Instead of quarterly financial statements, an issuer can publish less detailed information in accordance the Exchanges guideline[1]. Only a few issuers choose for this possibility, as can be seen from the paragraph "*Interim reporting*". Four issuers used the Exchange guideline in their report for the first quarter of 2014.

On 28 November 2013, the government initiated an investigation in order to analyse and propose if necessary the chances in law about how the monitoring of financial information should be organized in future. The investigation has not yet been closed and the Exchange will therefore also for 2015 be responsible for the monitoring of the financial statements.

ESMA published on 9 July 2014 the new "Guidelines on the enforcement of financial information"[2] that replaces the former guidelines of CESR on how enforcement should be organised. One of the changes proposed is that enforcement of IFRS cannot be performed by a regulated market operator. See the paragraph "*European cooperation– ESMAs new guidelines*" on page 7 for more information.

The results presented in this report have been presented in a seminar arranged by the Exchange on 9 December 2014. Presentation material of this seminar is available on the website.

Stockholm, 19 December 2014

[1] Vägledning för upprättende av Delårsredogörelse (not available in English).

[2] ESMA Guidelines on enforcement of financial information (ESMA/2014/807, ESMA/2014/1293sv for the Swedish version)

SELECTION 2014

The selection procedure conforms to the applicable procedure for monitoring financial statements and is based on a risk-based and rotation-based selection in accordance with ESMAs standards regarding monitoring and coordinating of financial information in Europe[3]. For next year´s monitoring, the new ESMA guidelines will apply (see page 8).

The risk-based selection results primarily from the Exchange's continuous monitoring of the issuers´ interim reports and other published information. Monitoring this information results often in questions directly related to accounting issues such as provisions, impairment charges, acquisitions and non-recurring items. Other factors that result in a risk-based selection are financial problems, major changes in operational activity or ownership, attention in the media, unusual high valuation or volatility in share prices as well as general deficiencies in issuer's information. A major part of the risk-based selection in 2014 refers to the issuers accounting for goodwill and segment reporting. The Exchange can also choose to monitor specific areas for a larger group of issuers, for example a specific industry. The risk-based selection often involves monitoring a specific area in the annual financial reports or an interim report.

Complementing the risk-based selection is a rotational (random) selection that aims in resulting that in principle all issuers are monitored within a five-year period. The Exchange also follows up newly listed companies, one year after listing. This follow-up includes a look at their financial reports, which may also result in a risk-based selection.

On top of this selection, the Exchange monitors how issuers have implemented the changes required in their next financial statements for issuers where previous investigation was concluded with a non-public reprimand or remarks.

[3] Standard no 1 on Financial Information – Enforcement of Standards on Financial Information in Europe/Standard No 2 on Financial Information – Coordination of Enforcement Activities.

EECS distinguishes between an unlimited scope examination and a focused examination of financial reports. An unlimited scope examination may involve annual financial statements or an interim financial report. A focused examination involves the examination of only a specific area. An example is where only the impairment of goodwill has been examined. The Exchanges classifies the follow-up of last year's non-public reprimands and remarks as well as the examination of only an interim financial report as focused examinations. The number of issuers examined is given in the following table:

	2014	**2013**
Unlimited scope examination	54	37
Focused examination	37	57
(of which follow-up of last year)	(19)	(28)
Total	**91**	**94**
In process by 19 december	3	0
Finalised	**88**	**94**

The following issuers have been examined in the 2014 monitoring (excluding companies for follow-up of 2013 results):

Unlimited scope	Unlimited scope (cont.)	Focused examination
Autoliv Inc.	Intellecta AB	AAK AB
Beijer Alma AB	KABE AB	Anoto Group AB
Bergs Timber AB	Karo Bio Aktiebolag	Arcam Aktiebolag
BioGaia AB	Karolinska Development AB	Arise AB
BioInvent International Aktiebolag	Klövern AB	Axis Aktiebolag
Biotage AB	Knowit Aktiebolag	Beijer Electronics Aktiebolag
Björn Borg AB	Loomis AB	Bilia AB
Boliden AB	Malmbergs Elektriska Aktiebolag	Boule Diagnostics AB
Bulten AB	Midway Holding Aktiebolag	Eniro AB
Bure Equity AB	Nederman Holding Aktiebolag	Feelgood Svenska Aktiebolag
Castellum Aktiebolag	Poolia AB	HMS Networks AB
Catena AB	Pricer Aktiebolag	ICA Gruppen Aktiebolag
Cloetta AB	Proact IT Group AB	Micro Systemation AB
Concentric AB	Proffice Aktiebolag	Moberg Pharma AB
Concordia Maritime Aktiebolag	RaySearch Laboratories AB	Mycronic AB
Credit Suisse Group	Royal Bank of Canada	NIBE Industrier AB
DGC One AB	Rörvik Timber AB	Nordea Bank AB
Elekta AB	SAAB Aktiebolag	Seamless Distribution AB
Endomines AB	Sensys Traffic AB	
Etrion Corporation	Svenska Cellulosa Aktiebolaget SCA	
Fabege AB	SSAB AB	
Fastighets AB Balder	Stockwik Förvaltning AB	
FastPartner AB	SWECO AB	
Gunnebo Aktiebolag	Tele2 AB	
Heba Fastighets Aktiebolag	TeliaSonera Aktiebolag	
HiQ International AB	Trelleborg Aktiebolag	
Husqvarna Aktiebolag	Wallenstam AB	

DISCLOSURES IN FINANCIAL STATEMENTS

The Exchange wrote in the 2013 report about the developments in this area. This continues to be applicable and can, together with the ongoing developments in IASBs project ”*Disclosure Initiative*”, help issuers with the improvement of future financial statements. More information is available at the IASB website, www.ifrs.org,

EUROPEAN COOPERATION

Note: some more information about ESMA, the European Enforcers Coordination sessions and our involvement is included in the Swedish report, but not repeated here.

ACTIVITY REPORT 2013

ESMA publishes every year a summary on the enforcement practices in Europe on the application of IFRS, based on the activities of EECS. The report [4] for 2013, which relates to the enforcement of the financial information for 2012, was published on 21 May 2014. The report shows that enforcement activities in the EU resulted in the following actions:

- Issuance of revised financial statements: 18 (2012: 35)
- Public corrective note or other public announcement: 152 (2012: 167)
- Corrections in future financial statements: 324 (2012: 305)

The first two actions encompass that the identity of the issuers is revealed on the publication of the action. In Sweden does only the verdict of the Exchange´s disciplinary Committee result in the name of the issuer becoming public. The exchange´s non-public reprimands can be seen as partly (the requirement to adjust) the same as the second category, as publication is public on the Exchange´s website, although anonymous. The remarks issued by the Exchange are similar to the last mentioned category, where the enforcement decision is only communicated to the issuer. In another 300 cases, enforcers notified the issuers about immaterial issues that could be improved. Those are equivalent to the Exchange’s “Other comments”. Most enforcers report the results of their examinations in a similar way as the Exchange does with this report..

ESMA publishes ”*European Common Enforcement Priorities*” since 2012. This year´s Activity Report includes for the first time even quantitative information about the results of the follow-up of these priorities. The results have been monitored based on a sample of 185 examinations (including a number from Sweden). The examinations resulted in actions in 46 case: 16 ”*public corrective notes*” and 30 ”*corrections in future financial statements”.* These 46 actions refer to the following standards:

Standard	%
IAS 37	13
IAS 19	14
IAS 36	73
	100

These results confirm the Exchanges experience that disclosures on impairment tests (IAS 36) still need improvements. Most actions refer to insufficient disclosure about the key operating assumptions that are used for the cash flow projections (IAS 36 paragraph 134d(i)) and the sensitivity analysis. Other comments were issued to a further 23 issuers in this respect.

[4] Activities of the IFRS Enforcers in Europe in 2013 (ESMA/2014/551).

ESMAS NEW GUIDELINES

ESMA published the final guidelines on enforcement of financial information which replace previous recommendations from CESR. These "*Guidelines on the enforcement of financial information*" are effective from 29 December 2014. The Swedish translation[5] is available on the websites of the Exchange and the Swedish FSA. ESMA has, based on EU-law, the mandate to issue guidelines, which mean that national enforcers "shall make every effort to comply with them" (ESMA Regulation Article 16.3). Enforcers (National Competent Authorities) should comply by incorporating these guidelines into their supervisory practices and notify ESMA whether they comply or intend to comply with the guidelines. This "*comply or explain*" model goes further than the previous recommendations of CESR. It is part of ESMAs mandate to oversee this compliance.

The guidelines include the requirement that enforcers should ensure adequate independence from government, issuers, auditors, other market participants and regulated markets operators. This means that the Exchange not can be an enforcer in agreement with the guidelines. The Exchange has already at an earlier stage asked to be freed from its responsibility for the enforcement of financial information. A government committee that should propose the changes in the Swedish law to implement the changes in the Transparency Directive has also been tasked with proposals how the enforcement of financial information should be organized (Dir.2013:109). That part of their work has not yet been finalized.

Technically, the guidelines are a replacement and confirmation of the current practice as developed under the earlier recommendations of CES. In some areas however, the guidelines are more precise. The guidelines refer, amongst others, to:

- Selection methods
- Examination procedures
- Enforcement actions
- European coordination (EECS)
- Emerging issues and decisions
- Reporting (within ESMA and externally)

Enforcement actions are defined in the guidelines. The table below shows these actions and the current equivalent used by the Exchange.

ESMA Guidelines	Current equivalents of the Exchange
Material misstatements	
Reissuance of the financial statements	
Corrective note	Disciplinary action, Non-public reprimand
Correction in future financial statements	Remark
Immaterial misstatements	
Information to the issuer	Other comment

Based on the outcome of earlier court cases, it is unclear whether the Exchange can require an issuer to reissue its financial statements. However, under current practice, no such cases have been found that would require an action beyond the Disciplinary actions that the Exchange can take.

[5] ESMA riktlinjer om tillsyn över finansiell information (28 oktober, ESMA/2014/1293sv).

FOCUS AREAS FOR FINANCIAL STATEMENTS 2014 2014

ESMA published on 28 October 2014 a public statement[6] that describes the enforcement priorities for 2014 financial statements. The focus areas are::

- Consolidation (IFRS 10 and 12).
- Joint arrangements (IFRS 11 and 12).
- Deferred tax (IAS 12).
- Disclosure by banks on the results of the Asset Quality Review.
- Disclosure in financial statements.

See the ESMA publication (available on the Exchange´s website, for further information.

The Exchange will examine the financial statements for 2014 with the same prioritized areas in focus. Special attention will also be given to IFRS 13 *Fair Value Measurement,* IAS 12 *Income Taxes* and IAS 36 *Impairment of Assets.* The Exchange will also follow up this year's reprimands and remarks.

[6] Public Statement European common enforcement priorities for 2014 financial statements, ESMA/2014/1309.

THE EXCHANGE'S OBSERVATIONS

Observations described in this report are based on breaches noted in the individual companies. Since the Exchange only examines an annual selection of annual reports, equivalent breaches may also have occurred in other companies' annual reports. The Exchange always assesses the relevant breach on the basis of materiality, which affects the final decision of the Exchange and the requirement for measures to be taken by the company.

Ultimately, determining which information is material is largely specific to each company and it is therefore difficult to consider the remarks as having general application. An observation of a breach in respect of a small company or a certain industry sector may be material, whilst an equivalent observation in respect of another company, which operates in a different industry sector or is of a different size, may clearly not be material. The aim of publishing this report is to make it easier for the companies to develop and improve the way in which they provide information externally. It is up to the individual issuer to decide whether the Exchange´s observations could or should affect the issuer's financial statements if the issuer was not included in this year's review.

The Exchange has, already in a number of years, in its correspondence with issuers asked for explanation of how the issuer assesses materiality. The Exchange notes that issuers this year more than in previous years have explained why certain areas or disclosure were considered immaterial. The Exchange could in many cases agree with the reasoning and such issues are therefore no longer include in the final letters.

RESULT OF THIS YEAR´S REVIEW

At the time of closure for this report, 3 reviews of this year's 91 (see table on page 6) were not yet finalized. One issuer was delisted, which brings the number of closed cases to 87. The table shows how these cases (number of issuers) are spread over the various categories of actions:

	2014	2013
1 No comments	72	73
2 Remarks	12	14
3 Non-public reprimand	3	5
4 Disciplinary action	0	1
	87	**93**

Category 1 (no comments) includes 16 (27) issuers out of the 19 (28) that were followed up based on last year´s review. Two of the remaining issuers received remarks on this follow up and one issuer received a non-public reprimand. The Exchange concludes that earlier comments in almost all cases result in changes in the next financial statements. A breakdown of our comments per standard is given in the table under *"Remarks"* below.

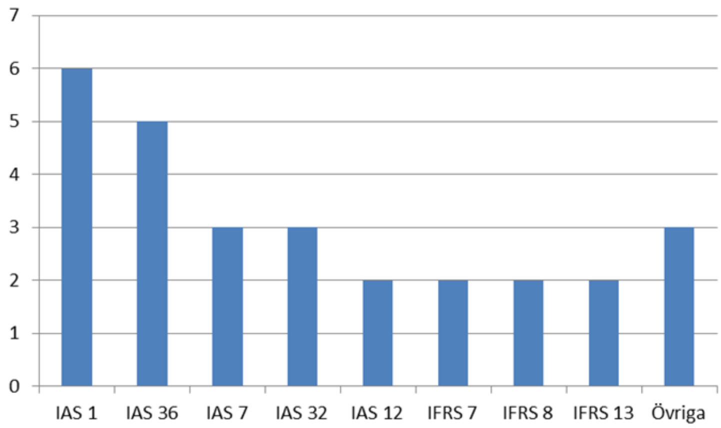
The final letter can include both criticism and remarks, but is categorized based on the more serious outcome. In all final letters, regardless of category, the Exchange may include comments that are less material ("*Other comments*"). Most issuers that have been subject to an unlimited scope examination (see page 11) have received such comments.

CASES FOR NON-PUBLIC REPRIMAND IN 2014

Three issuers received a non-public reprimand in 2014. For one issuer this resulted from the issuer not having adhered to the Exchange´s previous remarks with respect to IAS 36. Two issuers were reprimanded for presenting liabilities as non-current where the issuers did not have the unconditional right to defer settlement of the liability for at least twelve months after the reporting date (IAS 1). For more information, please see the chapter *"Comments by standard*".

REMARKS

Twelve issuers received remarks under this year´s examination. The graph below shows the number of issuers that received a non-public reprimand or remarks by standard. The graph shows that some issuers received remarks in more than one area.



As shown by the graph above, IAS 1 *Presentation of Financial Statements* has most frequently resulted in remarks. If one includes the Exchange´s *"Other comments"* , it is still the disclosures on IAS 36 *Impairment of Assets* that needs most improvement. "*Övriga*" in the table above refers to remarks on three standards. These are included in the chapter "*Other comments*".

COMMENTS BY STANDARD

IAS 1 PRESENTATION OF FINANCIAL STATEMENTS

The Exchange discusses the comments in the following areas:

- Classification of liabilities
- Presentation in the income statement
- Accounting principles
- Other issues

Classification of liabilities

Paragraph 69 specifies that a liability should be classified as current if an entity does not have the unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Paragraph 71 exemplifies that bank overdrafts are current liabilities. Paragraph 73 deals with the situation that refinancing of current liabilities is possible under an existing loan facility (that in turn should have a due date that allows for classification as non-current). Paragraph 74 refers to the possibility to classify a liability as non-current, even if the entity is in breach of the covenants. For both the latter exemptions, the entity should have the right for postponing repayment, sometimes through a waiver from its creditor, at the reporting date. Classification as current is required, even if the lender after the reporting date but before the publication of the financial statements has agreed to postponement.. IASB considers the wording in these paragraphs clear, but has nevertheless in its meeting in 2014 decided to clarify its meaning[7]: *"to make it explicit in paragraphs 69(d) and 73 of the standard that only rights in place at the reporting date should affect the classification of a liability".* The fact that the present wording is clear can also be seen from an earlier decision from EECS[8]. Two of this year´s non-public reprimands refer to issuers that presented liabilities as non-current without having the right for postponement of the repayment existed at the reporting date. One case referred to the refinancing of "*roll over*"-finance, the other case referred to an issuer that breached the loan covenants. The Exchange has even issued a remark to an issuer to present a bank overdraft and financing from factoring as current in its next financial statements.

Presentation in the income statement

ESMA has noted that there are significant differences within the EU in the presentation of the income statement. Such differences limit the possibility to compare entities, which is one of the reasons of having one set of accounting standards for the capital markets. Enforcers find it often difficult to improve this situation as IAS 1 leaves a lot of freedom in the presentation. ESMA has delivered a number of examples to the IFRS IC that have been part of an agenda decision and will be discussed as part of the IASBs *"Disclosure Initiative*". In this year´s examination of the issuers subject to an unlimited scope examination, the Exchange has noted the following.

Out of 52[9] issuers, 27 have chosen for a separate of profit and loss and a separate statement of other comprehensive income. The others present one statement. Eight of the 52 issuers are real estate companies, see below. Out of the remaining 44 issuers, 28 present the analysis of expenses based on their function and 16 based on their nature. It is mainly the first group of entities that present extra lines in the profit and loss statement, as compared with the example in IAS 1(IG 6).

Extra lines often refer to *"research and development*" and lines like "*non-recurring items*" or similar wording (acquisition related, amortisation of intangibles, non-comparable items etc.). IAS 1 paragraph 97 requires separate disclosure of nature and amount for items of income and expense that are material. The Exchange (and other enforcers within ESMA) interprets this as a requirement for separate disclosure in the notes or by splitting the total of the item in two lines, in other words in such a way that the analysis by nature or function is not mixed. It is however up to the IASB to clarify this as part of their "*Disclosure Initiative*". For that reason, the Exchange has limited its comments often (other comments" rather than remarks.

IAS 1 paragraph 99 requires an entity to present an analysis of expenses either based on their function or based on their nature. Paragraph 104 further requires disclosures of the expenses by nature in the notes if the former presentation is used in the income statement. Such disclosure would encompass the whole difference between revenue and operating profit and not just the examples mentioned in paragraph 104.

Research and development

An entity that present an income statement by function has to allocate all expenses according to their function with cost of sales presented separately (paragraph 103). Issuers with material R&D activities often recognize an intangible asset in accordance with IAS 38 paragraph 57. Amortisation is, as required by IAS 38 paragraph 99 recognized in the income statement, if not part of the cost of another asset. Amortisation is presented on the line item "*research and development*". Most issuers explain in the accounting principles that amortization starts when the products or services are coming to the market. The Exchanges has in these cases questioned why amortization is not allocated to cost of sales, given the close relation with sales. In such cases gross profit and gross margin are not presented as normally could be expected.

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[7] This change is part of a future amendment of IAS 1

[8] Extract 10

[9] Of 54 issuers, 2 do not report under IFRS.

The Exchange received various explanation as to why no allocation was made to to cost of sales Such reasoning and the effects of it on gross margin are examples of the judgments made by the entity that would require disclosure under IAS 1 paragraph 122. In most cases the Exchange has limited its comments to "*other comments*".

IAS 38 requires in paragraph 126 disclosure of the aggregate amount of research and development expenditure recognised as an expense during the period. The Exchange noted that many issuers are of opinion that this disclosure is given be referring to the separate line in the income statement. However, for many issuers that line includes the expenses that have not been activate during the period and (through the amortisation amount) part of the expenditure in previous years. This does not meet the requirement in paragraph 126.

Non-recurring items

Some issuers present certain items as "non-recurring" or variations of this wording with a similar type of content. The Exchanges has noted that such items often only refer to expenses; they seem to exist hardly on the income side. The amounts are often such that their "non-comparability" can be questioned. Amounts are often not material or point to an assessment of materiality that apparently does not apply to other items. The Exchange has in most cases commented that the issuer should specify an accounting principle for the nature of the item and its materiality to classify for this separate disclosure in order to ascertain for the user of the accounts that the classification is used consistently over time

Only a few issuers disclose how the analysis of expenses by function is affected by such items.

Presentation of the income statement by real estate companies

This year´s selection included 8 listed real estate companies. Five of these present a measure of profit a subtotal "*Income/profit from property management"* ("*Förvaltningsresultat*"). The other three do not use such subtotal. One of the five issuers did not present a definition of this subtotal. The use of a performance measure that is not defined in IFRS (even if practice in the industry) requires a definition and description in the accounting principles. The Exchanges noted that changes in the value of investment property are presented after the subtotal, as explained in its definition. Because the use of subtotals is part of IASBs "*Disclosure Initiative*", the Exchanges has not enforced this issue.

Five issuers include financial income and expense as part of their definition for the subtotal. These issuers present however changes in (interest) derivatives after the subtotal, which in most cases is mentioned in the definition. The Exchange notes however that this presentation seems at odds with the purpose of these derivatives (as expressed by the issuer) to limit the interest risk. Presentation as part of finance net would better present the risk management, as is done by the other three issuers. Presenting changes in derivatives outside finance net is an example of the judgments made that would require disclosure IAS 1 paragraph 122.

Accounting principles

The Exchanges noted also this year that the description of the accounting principles could be improved. This is especially true for smaller listed entities. In some cases accounting principles are presented for items that do not exist (for example, hedging or certain financial instruments), whereas in other cases accounting principles do not exist for transaction or items that do exist (for example options or shares in associates). As explained above, the Exchange is of opinion that issuers that use extra line items in the income statement (non-recurring items, research and development) should enhance the accounting principles for this in accordance with IAS paragraph 122. This paragraph requires disclosure of the judgments made by management in the process of applying the entity´s accounting principles. IAS 1 paragraph 125 requires disclosure about major sources of estimation uncertainty. Many issuers combine these often i a note labelled "*important estimations and judgments"* (or similar wording). The Exchange notes that the information presented is of a general nature (”boiler plate”) and seldom specific for the entity. Sometimes it is just a repetition of the accounting principle or the wording of IFRS.

Other issues

Paragraph 41 requires certain disclosures when an entity changes or reclassifies the presentation or classification of items in its financial statements.. The Exchange has noted that a number of issuers changed comparative amounts (for example in the cash flow statement), both in interim reports and in annual reports without such explanation. One issuer changes the presentation of its expenses from nature to function without any explanation. Paragraph 41c requires disclosure of the reason for the reclassification. With such changes an entity should also regards the requirement IAS 8, that a change should result in reliable and more relevant information.

Paragraph 38 requires the presentation of comparative information. These disclosures are sometimes missing, especially with regard to disclosure about impairment tests.

Paragraph 82 requires separate presentation of the share of profit and loss of associates and joint ventures (item c). The original text in IAS is more clear: ”*...Include line items that present: (c) share of the profit or loss of associates and joint ventures accounted for using the equity method…*”. Profit or loss defines in IFRS as after tax. One issuer received a remark as it presented the result from an associate before tax in operating profit and the relevant tax as part of the group´s tax.

An entity shall disclose information that enables users of its financial statements to evaluate the entity´s objectives, policies and processes for managing capital (paragraph 134). Paragraph 135 continues with the requirement for certain quantitative information, even with reference to externally imposed capital requirements. The latter is often viewed as if the IASB intended this to be applicable to entities under prudential oversight such as banks and others financial services entities. However, the IASB mentions in its Basis of Conclusions (BC 92-100) that capital requirement is not limited to regulatory requirements. If an entity for example considers net debt or similar as capita in its capital maintenance, loan covenants would be externally imposed requirements. Information about the issuers financial goals are often presented outside the financial statements, thus resulting in non-compliance with the requirements of paragraph 135.

IAS 36 NEDSKRIVNINGAR

52 of the 54 issuers that were subject to this year´s unlimited scope examination is Swedish entities. 34 of these recognised in total goodwill amounting to 1 530 MSEK with equity amounting to 3 220 MSEK. Goodwill amounted to between 5 and 137 percent of equity, on average 47 percent.

The Exchange has criticised one issuer for incomplete disclosures with regard to impairment tests. Other issuers where the goodwill amount is smaller or where only parts of the disclosures were missing have received remarks (four issuers) or only other comments.

Paragraph 134d(i) requires a description of each key assumption on which management has based its cash flow projections for the period covered by the most recent budgets/forecasts. Key assumptions are those to which the unit´s recoverable amount is most sensitive.

Four issuers did not present this information. Some issuers only disclosed the discount rate and the long term growth rate. These disclosures are specifically required by items (iv) and (v) of paragraph 134d. That fact should already clarify that such disclosure cannot meet the required description mentioned in paragraph 134. The Exchange notes that the quality of the descriptions of the key assumptions varies considerable. One issuer mentioned such a long list of assumptions that would question which were the most sensitive. Descriptions are often quite general where a more specific description should be possible. Some issuers present operating margin as a key assumption. The exchange is however of opinion that operating margin/profit is rather a result of other assumptions. Some issuers have disclosed detailed and to certain extent quantified information, even though quantitative information first can be required for a sensitivity analysis. That gives the investor a far better possibility to evaluate how the assumptions used in the test relate to actual results.

Paragraph 134 d(ii) requires a description of the management's approach to determining the value(s) for each key assumption. Many issuers present this information, though often with standardized language (boiler plate). The standard however requires disclosure "….whether those value(s) reflect past experience…and, if not, how and why they differ from past experience.." (emphasis added). The Exchange notes that compliance with the emphasised part of the quote above requires more disclosure than issuers generally supply. For example, it becomes sometimes evident form the detailed calculations that the Exchange requires that issuers calculate with a growth rate or a gross margin that differs considerably from those actually realized. Information about that is in those cases missing in the financial statements.

Paragraph 134f requires certain disclosures if a reasonably possible change in a key assumption would cause that an impairment is necessary. That requirement covers the whole of the useful live, i.e. including the period covered by the terminal value. A similar requirement exists in IAS 1 paragraph 129 if such a change would materialize within the next financial year. The Exchange notes that the requirements of these paragraphs are applicable after an impairment charge, as the carrying amount then equals the recoverable amount and every change in a key assumption would cause a further need for impairment.

Other issues that resulted in comments from the Exchange were:

- Disclosures with regard to impairment charges (paragraph 130) are too limited or only given in the management report,
- Missing justification for a projection period longer than five years (paragraph 33b),
- Discount rate disclosed before tax (paragraphs 55 and A20), and
- Missing comparative information as required by IAS 1 paragraph 38.

The Exchange has in a number of cases required the issuer to present the detailed calculations of the impairment test, the information on it presented to the Board and the auditors reporting on it in order to evaluate the issuers accounting. This has been the case specifically where an impairment charge is taken in the interim report without any indication in the previous financial statements..

70 percent of the 46 "*enforcement actions*" taken by European enforcers under 2013 refer to non-compliance with IAS 13, as mentioned in ESMAs Activity Report[10]. The report is looking for a more entity specific description of the key assumptions and an explanation why an impairment charge is not necessary if the entity's equity is higher than its market value. Extract 16[11] emphasises the importance of more detailed information, as well as per cash generating unit in this respect. The Exchange has in this year´s (and earlier) monitoring noted that information on impairment tests can and should be improved. ESMA reiterates in its enforcement priorities for 2014 that the IFRS requirements on impairment test are still important in the current economic environment. The Exchange will even in future monitor the application of IAS 36 where entities account for impairments or have large amounts of goodwill.

IAS 7 STATEMENT OF CASH FLOWS

The Exchange noted that issuers present cash flows from investing activities and from financing activities on a net basis. IAS 7 paragraph 21 specifies that cash flows shall be reported gross unless certain exceptions in paragraph 22 apply. A number of issuers received remarks for this.

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[10] Activities of the IFRS Enforcers in Europe in 2013 (ESMA/2014/551), see page 13.

[11] Decision ref EECS/0214-09, see page 16.

The Exchange even found that one issuer reported the net profit on the sale of assets as cash inflow. In a number of cases smaller inconsistencies and reclassifications in the comparatives were found. Even though these were not material, it seems to show the report of cash flows does not receive the proper attention.

IAS 32 FINANCIAL INSTRUMENTS: PRESENTATION

IAS 32 paragraph 15 requires classification of a financial instrument as a financial liability or equity in accordance with the substance of the instrument. This further amplified in paragraph 16. The resulting classification is not always clear, which i many cases result in a further investigation of the clauses of the instrument and normally result in an internal memo that supports the final classification.

A number of entities have issued preference shares with a fixed amount for the distribution, which points towards classification as a liability, although the entities presented these as equity. The Exchange has required seeing the supporting internal documentation for equity classification in accordance with paragraphs 15 and 16. Classification is an example of judgments made in the process of applying the accounting principles, which would require disclosure in accordance with IAS 1 paragraph 122. The issuers concerned have not disclosed their reasoning as to why classification as equity is supported. The Exchange has in these cases given remarks that information on the grounds for the issuer´s ´judgments should be presented in the next financial statements. .

IAS 12 INCOME TAXES

Paragraph 34 requires recognition of a deferred tax asset for the carryforward of unused tax losses to the extent that it is probable that future taxable profit will be available. Uncertainty as to the period in time this set off is possible is however not a reason for not recognizing a deferred tax asset, especially in the situation referring to Swedish losses without any time limitation. One issuer received a remark for not recognizing an asset where the entity recognised profit.

Paragraph 35 deals with the situation where an entity has reported losses under recent years. In such cases, a deferred tax asset is only recognised to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses can be utlised by the entity. Paragraph 82 requires disclosure of the nature of the supporting evidence. An issuer that has reported losses under many years has received a remark for its recognition of an asset. Neither did the issuer comply with paragraph 82.

The Exchange has noted that it is common practice that the effects of the use of tax losses are first recognised in the annual financial statements and not in interim reports. IAS 34 paragraph 30c is clear that income tax is accounted for in every interim period based on the entity´s best estimate of the tax burden for the year. Paragraph B21 clarifies the expected use of tax losses is part of that best estimate.

Other issues that resulted in comments from the Exchange are:

- Missing disclosures about each type of temporary difference and unused tax losses (paragraph 81g).
- Failure to disclose the expiry date for deductible temporary differences, unused tax losses and other unused tax credits (paragraph 81e).
- Limitation to only a few years in the judgment about the probability to use unused tax losses (paragraph 34).

The Exchange notes that the IFRS IC in respect of IAS 12 has published some pronouncements that could affect coming financial statements. With regard the basis of measurement of uncertain tax positions has IFRS IC[12] concluded that *”the proposed guidance should clarify that an entity should assume that the tax authorities would examine the amounts reported to them and have full knowledge of all relevant information”*. ESMAs enforcement priority for 2014 clarifies that entities are expected to disclose their accounting principle for this in accordance with IAS paragraphs 117 and 122.

With respect to deferred tax for a single asset in a legal entity (corporate wrapper), it has been concluded that *”these paragraphs (11 and 38, ed. Exchange) require a parent to recognize both the deferred tax related to the asset inside and the deferred tax related to the shares”.* IFRS ICs agenda decision[13] may result in the need for certain entities (especially real estate companies) to revisit their accounting for deferred tax.

IFRS 7 FINANCIAL INSTRUMENTS: DISCLOSURES

Paragraph 39 requires the entity to disclose a maturity analysis for derivative and (separately) for non-derivative financial liabilities.) Disclosure is required for the undiscounted contractual cash flows (B11D). That includes both repayment and interest payments. A number of issuers does not supply this information. Paragraph B11 requires the entity to determine an appropriate number of time bands. The Exchange has noted that many issuers still use the previously common time bands (less than 1, 1-5, more than 5years), even where this is not the most relevant. In one case, the issuer received a remark because the chosen periods did not adequately describe the entity´s risk with financial instrument, given its financial position.

Paragraphs 23 and 24 require certain disclosures for hedge accounting. The Exchange has issued a remark to an issuer that lacked this disclosure.

Paragraph 40a requires a sensitivity analysis for each type of market risk to which the entity is exposed at the end of the reporting period, showing how profit or loss and equity would have been affected by changes in the relevant variable that were reasonably possible at that date. Paragraph 40b asks for disclosure of the methods and assumptions used in preparing the sensitivity analysis. This disclosure is sometimes missing. The Exchange has noted that disclosure about the effects on equity often is missing, probably because issuers assume that the effects on profit or loss and equity are the same. In such cases, the issuer should have used the profit or loss after tax in accordance with IFRS 7. Many issuers however disclose the effect on a line higher up in the income statement, which seems to conflict with paragraph 40a. Paragraph B18a and implementation guidance (IG34) seem to open for a certain flexibility if a more relevant analysis is presented. As an example it mentions a sensitivity analysis for each currency that exposes the entity for interest risk. The Exchange has, given the differences that apparently exist between the standard and the application guidance, only commented the issue (as other comments) to issuers where a sensitivity analysis would be expected given the issuers activities or financing.

It can be noted that issuers show a variety in this disclosure, where for example for interest risk the effect is given of a 1 percent change on:

- Interest expense
- Interest expense after tax
- Operating profit
- Profit or loss before tax

[12] IFRIC Update, September, November 2014.
[13] IFRS IC agenda decision, IFRIC Update July 2014.

For currency risk, the effects are given for a change (1 or 10 percent) on:

- Operating profit
- EBITDA
- equity
- revenue and EBITDA

Variations the cash flows and exchange rates are less appropriate as it requires the user to do the calculations of the effects.

Other issues that resulted in comments from the Exchange are.

- Disclosures relating to credit risk (paragraphs 36 and B9-10),
- Sensitivity analysis for each currency to which the entity has significant exposure (B24), and
- Large amounts for other liabilities or non-current financial assets without any explanation (paragraph 31).

IFRS 8 OPERATING SEGMENTS

The remarks given by the Exchange refer in most cases to breaches in the entity-wide disclosures (paragraphs 31-34).

A number of companies did not report geographical information relating to revenues from external customers and non-current assets in accordance with paragraph 33. Most commonly lacks information about Sweden (as the country of incorporation) and the grounds on which revenues from external customers were attributed to individual countries.

Paragraph 34 requires the entity to provide information about its reliance on major customers. If that is the case, certain information should be disclosed. Two issuers received remarks for not presenting this information, motivated by competitive reasons. The Exchange notes that IASB considered this, but concluded its deliberations that "*a competitive-harm exemption would be inappropriate*" (BC 45). Extract 16[14] shows a decision in a similar case.

One issuer referred to the Board as the "*chief operating decision maker*" (paragraph 7). The Exchange noted that this would be in conflict with the Companies Act (Aktiebolagslagen).

IFRS 13 FAIR VALUE MEASUREMENT

This year is the first year of application of the standard, that specifies how fair value should be measured and which disclosures should be made. The standard assumes that the highest and best use of a non-financial asset is the valuation premise (paragraph 31). Disclosure is required if this differs from the current use of the asset (paragraph 93i), which for example can be the case for real estate (parking versus housing). IFRS 13 has most effects for entities that have recurring non-financial assets that are fair valued, like real estate and biological assets. The Exchange has therefore, in conformity with ESMAs enforcement priorities for 2013, included a number of real estate companies in this year´s selection. Disclosures about fair value are more extensive than before for this type of assets, but even for other assets that are not accounted for at fair value, but for which disclosure of fair value is required (paragraph 97).

Two issuers have received remarks; one issuer for not disclosing quantitative information about Level 3 data (paragraph 93d) and the other for not using appropriate classes of assets (paragraph 94).

[14] See page 17 and further.

An entity shall, in accordance with paragraph 94, determine appropriate classes of assets and liabilities on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy. The Exchange has noted that information about the classes need improvement for the real estate companies. Many issuers give details by regions, even if the risks connected with for example houses, industrial property, shops and projects under development would be significantly different. Determination of appropriate classes is important because the disclosure requirements (paragraph 93) are for each class, which is especially important for the requirement of a sensitivity analysis (paragraph 93h). The Exchange has in one case noted that differences in the description of the real estate portfolio in different parts of the financial statements may result in uncertainty as to which classes are used.

Real estate companies base fair value in mainly on net rental income and a yield. Most issuers present a sensitivity analysis for the whole portfolio and not per class. That results in presenting for example a range in yield s that is relatively wide and not very helpful in evaluating. The Exchange notes that the sensitivity analysis van be improved by a better reconciliation and should focus on the unobservable data. An example of a less helpful disclosure is disclosure of the yield but a sensitivity analysis for 1 percent of the rental income.

The Exchange will also with next year´s monitoring focus on the application of IFRS 13.

OTHER COMMENTS

The Exchange has formulated parts of the issues as "Other comments". The Exchange has given such other comments in nearly all final letters issued. These other comments are only meant as support for the issuers in their improvement of financial reporting and do not require any action towards the Exchange. Issuers have in many such cases already agreed to changes or improvements. Issuers need however to judge the materiality of those disclosures given the present debate on disclosures (see even Disclosures in Financial statements on page 7).

In some cases these issues refer to the same areas that are already discussed in the earlier chapter "*Comments by standard*". These are therefore not repeated here.

In the summary below are also included the issues in the three standards where only one issuer received a remark (see table on page 11).

The Exchange only gives the reference to the paragraphs below[15]. The Exchange is of opinion that the text in the chapter Comments by standard and in the list below can serve as a base for a listed entity to ascertain the quality of its financial statements.

[15] A few lines of text from the relevant paragraph are included in the official version of the report in Swedish.

Standard	Paragraph
IFRS 3	B64d, B64g
IFRS 5	9, 33c and 33d
IAS 17	35c, 66
IAS 19	148
IAS 24	18
IAS 34	16A(i), three line cash flow statements

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