Market newsletter 1/2021

Content

The Market Newsletter addresses topical matters concerning interpretations and regulation as well as supervisory findings relating to listed companies' disclosure obligation, financial reporting enforcement, securities trading and insider issues. The newsletter is published by the Financial Supervisory Authority's Capital Markets Supervision.

Availability of prospectuses and suspension of subscription in First North listings

Article 21 of the Prospectus Regulation requires that a prospectus be made available to the public at a reasonable time in advance of, and at the latest at the beginning of, the offer to the public or the admission to trading of the securities involved.

The provision of Article 21 of the Prospectus Regulation that requires that a prospectus be made available to the public at least six working days before the end of the offer applies to situations where the shares offered are admitted to trading on a regulated market for the first time. In other situations, the Regulation previously required that a prospectus be published no later than two banking days before the start of the offering of securities to the public (Decree of the Ministry of Finance 1019/2021[1]). This could be deviated from with the consent of the Financial Supervisory Authority (FIN-FSA). In giving its consent, the FIN-FSA required the issuer to undertake not to suspend the offer period before investors have had the opportunity for at least two banking days to review the prospectus and one banking day to make a possible subscription.

The FSA considers that the previously agreed minimum time, namely that investors have at least two banking days to review the prospectus and at least one banking day to make a possible subscription, can still be considered a reasonable minimum time to review the prospectus and make a possible subscription in First North listing. In practice, the prospectus should therefore be available to the public at least three working days before the earliest suspension date.

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[1] *Decree of the Ministry of Finance on prospectuses referred to in chapters 3–5 of the Securities Markets Act. Chapter 3 of the Securities Markets Act was amended and chapters 4 and 5 were repealed in 2018.*

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Financial Supervisory Authority charges a fee for cancelled prospectus applications

The Financial Supervision Authority (FIN-FSA) invoices the applicant for prospectus approval processing fees after the prospectus has been approved. If the case is suspended due to the applicant's withdrawal of their application, a fee (EUR 123/hour) will be charged for the number of hours worked in processing the case up to the time of cancellation. The fee will not, however, exceed the maximum processing fee charged for the approval of a prospectus, which is, for example, EUR 6,200 in listings. More information on processing fees can be found on the FIN-FSA website.

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Legislative proposal on the publication of the assurance report on ESEF financial statements

Listed companies that are issuers of shares or bonds operating on a regulated market must publish their annual financial report for 2021 in European Single Electronic Format (ESEF). A national legislative proposal related to the assurance of ESEF financial statements[2] is under way. The proposal would require a company to publish an auditor's report or other assurance report on ESEF if the company wishes to state that the ESEF financial statements have been audited or have been subject to other type of assurance by auditors.

In connection with the first mandatory ESEF financial statements, the European Securities and Markets Authority (ESMA), in its public statement on common enforcement priorities, draws the attention of listed companies to the packaging of Inline XBRL reports in accordance with XBRL International's and ESMA's ESEF Reporting Manual guidelines. Investors' access to information may be put at risk if ESEF reports do not open correctly in software applications or if there are errors in the XBRL tags. ESMA also alerts companies on the incorrect use in financial statements of positive and negative values in machine-readable reporting.

ESEF financial statements mandatory for 2021

The postponement period for the electronic reporting of listed companies' financial statements is coming to an end. Only documents in xHTML format and XBRL-tagged with regard to primary financial statements will meet the disclosure requirements of the Securities Markets Act. PDF-format financial statements and management reports will not meet the requirements, but can be published alongside the ESEF. In the 2021 consolidated financial statements, the primary financial statements must be tagged

[2] *For the purposes of this article, ESEF financial statements refers to the financial statements and management report in ESEF format.*

with XBRL tags, whereas block-tagging of notes to the financial statement is not mandatory until 2022. The postponement did not change the timetable for the entry into force of the requirement for XBRL tags in the notes.

About half of the Finnish listed companies already published ESEF-format annual financial reports voluntarily for 2020 alongside the traditional PDF. During the postponement period, listed companies have followed different practices in publishing ESEF financial statement and in obtaining assurance from auditors. The number of companies that voluntarily published ESEF financial statements was high in Finland compared with many other countries.

Some companies obtained assurance from auditors for ESEF financial statements for 2020

The Commission Interpretative Communication on the preparation, audit and publication of financial statements in ESEF format requires the audit of ESEF financial statements. There is no national requirement in Finland for the audit or other assurance of ESEF, however.

In Finland, around half of the voluntarily published ESEF financial statements for 2020 were subject to some type of assurance by auditors, as declared by companies. Some of these companies published an assurance report, while some stated that the ESEF financial statements had been subject to assurance by auditors but did not publish an assurance report on this.

Under a new provision, the publication of an assurance report on ESEF may become mandatory for 2021

During this autumn, the Ministry of Finance has made a proposal (HE 126/2021 vp) to amend the Securities Markets Act to include a requirement for issuers to publish an auditor's statement on ESEF financial statements. The purpose of the amendment is to clarify and harmonise disclosure practices for auditor's statements related to electronic financial reporting. If the issuer declares that its ESEF financial statements have been audited or have been subject to other type of assurance by auditors, the auditor's statement on this should also be made available to the market.

The legislative proposal is currently being considered by Parliament and is expected to enter into force on 1 January 2022 or as soon as possible thereafter. Upon its entry into force, the requirement would already apply to the financial statements for 2021. The following addition to chapter 7, section 8 of the Securities Markets Act is proposed

- If the issuer's auditor has audited the financial statements prepared in accordance with the Commission's technical regulatory standard or has performed other type of assurance work, the auditor shall state in its statement the extent of the work performed. The statement of the auditor is appended to the financial statements.
- If the issuer's auditor has not audited the financial statements prepared in accordance with the Commission's technical regulatory standard or performed other type of assurance work, the issuer shall state this in the financial statements.

Chapter 7, section 12 of the Securities Markets Act contains a similar requirement to publish an auditor's statement on the half-yearly report.

According to the above-mentioned Government proposal, the harmonisation of disclosure practices for assurance reports on ESEF financial statements would be justified in order to increase the reliability and transparency of the securities markets. The issuers' own statement on the performance of auditors' work cannot be considered sufficient. By harmonising issuers' disclosure practices, the investors would be able assess the reliability of information disclosed according to consistent criteria.

Finnish Association of Authorised Public Accountants' recommendation on the assurance of ESEF remains relevant

The FIN-FSA recommends compliance with the Finnish Association of Authorised Public Accountants' recommendation on the assurance of ESEF. The FIN-FSA considers the assurance of ESEF to be important from the standpoint of investor protection and the sound operation of the markets.

Considerations in publishing the assurance report

The FIN-FSA makes the following few practical observations related to the publication.

If the company obtains assurance on ESEF from auditors, the audit report as well as the separate assurance report on ESEF are published alongside the ESEF financial statements.

If the company does not obtain assurance from auditors on ESEF, the company declares in the ESEF financial statements that no assurance on ESEF has been obtained. The company decides where to disclose this information. The audit report is published alongside the ESEF financial statements.

A common publication practice for the ESEF financial statements for 2020 was that the assurance report on ESEF was included in the xHTML document as a separate section just like the audit report. This approach will also apply to the publication of ESEF financial statements for 2021.

According to the Accounting Act, official financial statements for 2021 can still be on paper, which is submitted to the Finnish Patent and Registration Office (PRH) in PDF format.

Naming ESEF files – LEI code or company name or its abbreviation

Most of the Finnish companies that published ESEF financial statements used their LEI code in the name of the zip file in accordance with Nasdaq Helsinki guidelines. For the 2021 financial statements, it is recommended that companies follow the updated Nasdaq guidelines for naming zip files. The guidelines are designed to comply with the guidelines of ESMA's ESEF Reporting Manual, which allows the use of either the LEI code or the company name or its abbreviation in the name of the zip file. The guidelines also includes conventions for naming different language versions. The guidelines can be found under *Supporting documents* in the Rules & Regulations section on the Nasdaq Helsinki website or directly via this link.

Validation of ESEF financial statements

Based on validations they have carried out, many XBRL experts, such as XBRL International and software providers, have highlighted the fact that there were quality issues in the 2020 ESEF reports of a number European listed companies that could adversely impact the usability of information in XBRL format.

XBRL International has published a series of blogs on the first year's ESEF reports and the most common validation errors and reporting pitfalls they contain. The latest, part 8, of the blog series deals with rounding warnings (calculation inconsistencies). XBRL International has also published an information service on ESEF reports, which brings together in one place the ESEF reports of companies in different countries and also details the observed validation errors and warnings for each company.

The aforementioned validation errors and warnings mentioned relate to the requirements specified by the ESEF RTS and not, for example, to the validation of the rules of ESMA's ESEF Reporting Manual.

In a public statement, ESMA reminds issuers of enforcement priorities in application of ESEF

In a public statement published on 29 October 2021 regarding common enforcement priorities for 2022, ESMA also refers to ESEF reporting. The ESEF technical specifications and XBRL tags for ESEF financial statements are not, however, included among the enforcement priorities.

The FIN-FSA will not carry out planned enforcement of the machine-readable part of ESEF financial statements (xHTML/iXBRL) in 2022, but will react, if necessary, retrospectively to any significant errors in ESEF files that may arise in the markets.

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ESMA's common enforcement priorities for 2021 financial statements – taking climate-related risks into account in reporting of financial and non-financial information is emphasised more year by year

On 29 October 2021, the European Securities and Markets Authority (ESMA) published the European Common Enforcement Priorities (ECEP) for the 2021 IFRS financial statements of listed companies and the reporting of non-financial information.

The public statement on priorities is divided into three sections. The IFRSs-related priorities presented in section 1 are:

- the COVID-19 pandemic, including the long-term impact of the pandemic and the recovery from the pandemic
- climate-related risks in IFRS financial statements
- disclosures on expected credit losses (ECL).

Section 2 addresses reporting of non-financial information. The enforcement priorities are:

- the impact of the COVID-19 pandemic on the company's business and ability to meet sustainability targets
- comprehensive reporting of climate-related information in accordance with the NFRD Directive[3] and its Supplement[4]
- disclosure obligations set out in Article 8 of the Taxonomy Regulation and preparedness to discharge such obligations.

In the section three, ESMA would like to draw companies' attention to the application of ESMA's guidelines on alternative performance measures in view of the COVID-19 pandemic. In addition to these,

[3] Directive 2014/95/EU of the European Parliament and the Council
[4] Communication from the Commission — Guidelines on non-financial reporting: Supplement on reporting climate-related information (europa.eu)

the document includes a reminder on the introduction of ESEF reporting. There is a separate article on the topic in this Market newsletter.

More detail is available on European Common Enforcement Priorities in the public statement.

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IFRS IC agenda decision on cloud services costs

In March of this year, the IFRS IC issued an agenda decision (Configuration or Customisation Costs in a Cloud Computing Arrangement) addressing a question it had received on how a customer accounts for costs of configuring or customising a supplier's application software provided as a cloud service (Software as a Service arrangement)[5]. IFRS IC agenda decisions do not change the requirements of IFRS standards, but in some situations they may clarify the application of existing requirements.

As this IFRS IC agenda decision might cause or has already caused a change in companies' accounting policy[6] for the treatment of costs arising from configuring or customising cloud services, the content of the decision is briefly described below. The full agenda decision is available on the IFRS Foundation website. The FIN-FSA requests that companies carefully assess the impact of the agenda decision on accounting policies.

In a SaaS arrangement, the service supplier provides software applications to customers for use as a cloud service without the software being used on the customer's own (owned or leased) hardware. The service user receives access to the service supplier's software and incurs configuration or customisation costs for such access.

The agenda decision considered two issues

1. Whether the service user recognises an intangible asset in relation to configuration or customisation of software under the SaaS service supplier's control.
2. If an intangible asset is not recognised, how the customer accounts for the configuration or customisation costs.

According to the IFRS IC, in the SaaS arrangement described, the customer would not recognise an intangible asset under IAS 38 *Intangible Assets* because it does not control the software being configured or customised. Configuration or customisation do not therefore create a resource controlled by the service user that is separate from the software. In some circumstances, however, the service user's needs may result in the writing of additional software code from which only the service user will obtain economic benefit (and to which no other users have access). In that case, the service user must assess on the basis of IAS 38 recognition criteria whether an intangible asset arises and it gains control over it.

If an intangible asset does not arise, the costs of configuration or customisation are recognised as an expense. The IFRS IC observed that guidance from IFRS 15 *Revenue from Contracts with Customers*

[5] *The IFRS IC issued an earlier agenda decision on cloud services in 2019*
[6] *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.*

on the timing of recognition of services may be used in determining when the supplier performs the services.

A key issue in assessing the treatment of configuration or customisation costs in SaaS services is whether the configuration and customisation service is separately identifiable from the actual SaaS service. With regard to the separability criterion, an assessment is made as to whether the service in question could be provided by a party other than the cloud service supplier (for example, a third-party information system consultant or the customer company itself). If some party other than the cloud service supplier could provide the service in question, the separability criterion is met. This is also the case in a situation where the cloud service supplier provides the service, but some other party or the customer company itself *could* also provide the service.

If the services received by the customer are distinct from the SaaS, the customer recognises the configuration or customisation service costs as an expense. If the services received by the customer are not distinct from the SaaS, the customer recognises the costs as a prepayment, which is recognised as an expense during the contract period of the SaaS arrangement. Expenses treated as prepayments can only be expenses charged by the SaaS supplier (or expenses related to the work of a subcontractor used by the SaaS supplier) that cannot be separated from the SaaS arrangement.

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Revenue has been reported for three years in accordance with the new standard – observations on application

Revenue is one of the most important performance measures in the financial statements. Listed companies have several years of experience of applying IFRS 15 *Revenue from Contracts with Customers*. The IFRS 15 enforcement priority is company-specific enforcement. The FIN-FSA has asked companies questions on recognition and measurement with regard to application as well as questions about possible shortcomings in the presentation of notes to the financial statements. Companies have also been requested to provide an extract from their IFRS 15 accounting manual.

In addition, the FIN-FSA has conducted a study of the disclosures of 18 listed companies in the 2018 and 2020 financial statements. Those sectors expected to be most affected by IFRS 15 were selected for the study. Of the companies, just over half are large companies according to the Helsinki stock exchange classification, around one-fifth are medium-sized companies, another fifth are small companies and the remainder represent bond issuers. The findings of the FIN-FSA show that there is still room for improvement in the presentation of the required disclosures. The study also shows that more than half of the companies have in some way improved the information presented from the 2018 financial statements to the 2020 financial statements.

The article presents the FIN-FSA’s findings on both company-specific enforcement and the conducted study with regard to the following topics:

- objective of the disclosure requirements
- disaggregation of revenue
- information on management judgment exercised

- identification and satisfaction of performance obligations
- presentation of contract-based balance sheet assets and liabilities
- the transaction price allocated to the remaining performance obligations.

Study confirmed FIN-FSA's views on challenges in applying IFRS 15

The impact of IFRS 15 on the amount of revenue and the time of recognition have differed for different companies. However, the adoption of the standard introduced additional requirements for all companies regarding the amount and content of information to be disclosed in the financial statements, which should be reflected in an expansion of the notes to the financial statements and in improved informativity.

The objective of the disclosure requirements is to enable users of the financial statements to understand, based on the information disclosed, the nature, amount, timing and uncertainty of the sales revenue and cash flows arising from contracts with customers (IFRS 15.110). The standard therefore requires a company to assess which disclosures meet that objective for the company itself. Management judgment plays a significant role in making the assessment.

The FIN-FSA emphasised the objective of the disclosure requirements in a number of enforcement cases (see Figure 1).

Figure 1. Excerpt from FIN-FSA enforcement letter, with company-specific information deleted

> In section X of its response, the Company submitted to the FIN-FSA the content of its contracts with customer, the method of revenue recognition and other relevant matters regarding different types of revenue. The descriptions of the different types of revenue (X, X, X and X) provided by the Company in its response are useful information for meeting the objective of the disclosure requirements in IFRS 15.110.
>
> *The Company is requested to expand in its future financial statements the IFRS 15 disclosures with regard to the above-mentioned descriptions in order to meet the objective of the disclosure requirements in IFRS 15.110.*

Source: Financial Supervisory Authority

FIN-FSA's conclusion: The information disclosed on revenue must be company-specific and reflect the company's business and the revenue streams generated from it.

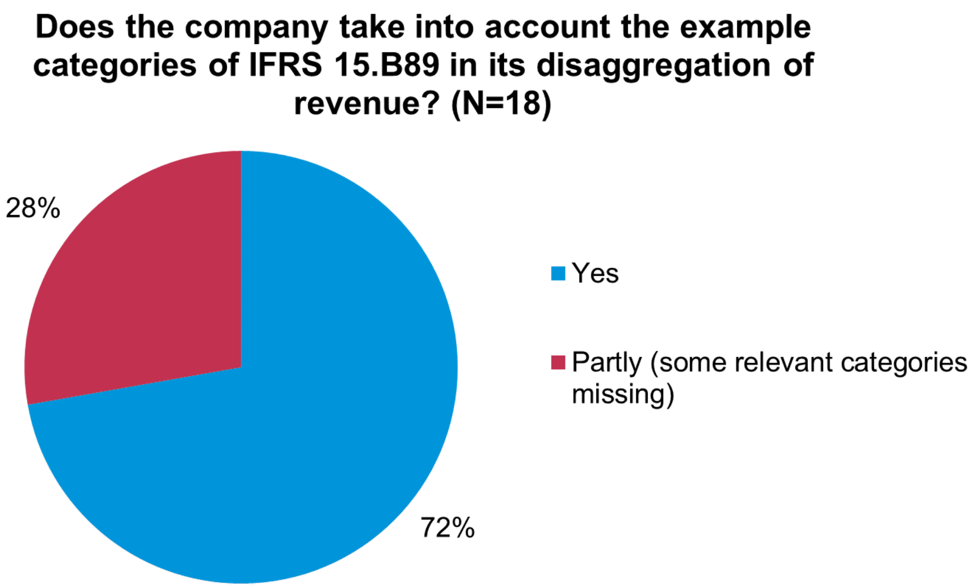
Disaggregation of revenue is often left to segment information

Companies are required to disaggregate revenue from contracts with customers into categories that describe how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors (IFRS 15.114). One kind of disaggregation, such as by geographical or business area, does not necessarily meet this requirement (IFRS 15.BC337). It is also not sufficient for the company to base the disaggregation of revenue solely on a mode of presentation in accordance with IFRS 8 *Operating Segments*.

The FIN-FSA has found that companies have not always assessed the relationship between IFRS 15 and IFRS 8. The objective of segment information in accordance with IFRS 8 does not correspond to the objective of IFRS 15 in the disaggregation of revenue. Segment information in accordance with IFRS 8 may also have been prepared according to recognition and measurement principles other than those in IFRS 15. A company's segment information may not provide investors with an adequate understanding of the composition of revenue recognised during the period (IFRS 15.BC340). When choosing which type of categories to use, the company must take into account, among other things, information presented outside the financial statements that is used internally to assess financial performance. Information presented transparently gives investors an understanding of the risks associated with different revenue streams, for example. The COVID-19 pandemic, for example, could have had a significant impact on a particular revenue stream.[7]

With the adoption of IFRS 15 in 2018, only about one-third of the companies included in the study increased or changed the disaggregation of revenue compared to the previous practice. Furthermore, there had been no change in the 2020 financial statements.

Figure 2. Question on disaggregation of revenue in the FIN-FSA study



Source: Financial Supervisory Authority

Over two-thirds of the companies included in the survey took into account the example categories of IFRS 15 in their disaggregation of revenue (see Figure 2). The FIN-FSA has found that the most commonly presented categories according to IFRS 15 were geographical region and type of good or service. The most common addition from IFRS 15 made by companies in the disaggregation of revenue was timing of transfer of goods or services, i.e. transfer of goods or services to customers at a point in time vs. over time. The FIN-FSA considers the timing of the recognition of revenue to be important investor information, which reflects, among other things, the risks associated with different income streams. The FIN-FSA considers the IASB's matrix mode of presentation to be a good example of the presentation of disaggregation of revenue (IFRS 15.IE211).

In several cases, the FIN-FSA has asked companies to expand the disaggregation of revenue in the financial statements. The FIN-FSA has found, among other things, that in some companies, revenue is analysed more extensively outside the financial statements (e.g. in the management report or capital

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[7] *A follow-up IFRS 15 thematic review by the Financial Reporting Council (2020) (s.12).*

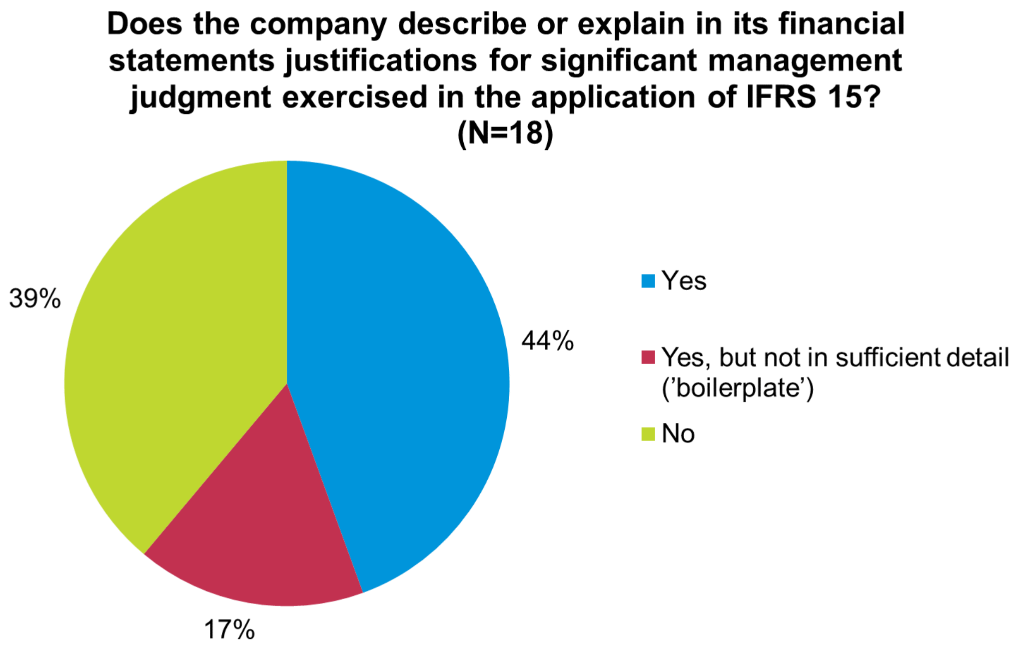
market day material). In its enforcement letters sent to some companies, the FIN-FSA has commented on this issue and requested a reassessment of the presentation of disaggregations in the financial statements. Ireland's enforcer, for example, has also drawn attention to this. The enforcement summaries[8] published by the Irish enforcer show that in Ireland, as a result of dialogue with the enforcer, some companies have decided to increase their disaggregation of revenue in future financial statements. Moreover, in an enforcement decision[9] published by ESMA, a company, in documents presented in connection with its earnings announcement, presents a disaggregation of revenue on a more detailed level than in the financial statements. The decision considers whether a more detailed disaggregation of revenue should also be presented in the financial statements.

FIN-FSA's conclusion: When preparing financial statements, companies must assess whether they should present more disaggregations in order to meet the objective of IFRS 15.114. Companies should also ensure that the disaggregation of revenue they present describes how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

It is not always clear from information on management judgment where management has exercised judgment and why a particular conclusion was reached

Companies must disclose significant judgments, and changes in the judgments, made that significantly effect the determination of the amount and timing of revenue from contracts with customers (IFRS 15.123). It is important to note that, due to the importance of revenue, this is an additional requirement to the general requirement set out in IAS 1 *Presentation of Financial Statements* for an explanation of management judgments and estimations (IFRS 15.BC355).

Figure 3. Question on management judgment in the FIN-FSA study



Source: Financial Supervisory Authority

[8] Financial Reporting Decisions by the Irish Auditing and Accounting Supervisory Authority (2020) *(p.14 and p.23).*
[9] ESMA 24th Extract from the EECS's Database of Enforcement *(p.12-13).*

Just under half of the companies included in the study provided an extensive account of management judgment in relation to IFRS 15 (see Figure 3). Similarly, just under half of the companies provided some information on management judgment and a small number did not mention it at all. Management judgment disclosures were often so concise, however, that it was not clear from the notes how the judgment exercised affected the amount of revenue and the timing of revenue recognition.

Some companies made in connection with the general accounting policies a statement that merely disclosed that revenue included estimations and judgments. A presentation like this is not sufficient. Moreover, a statement that more is disclosed in connection with an IFRS 15 accounting policy is not sufficient unless it is clearly stated in the accounting policy where management has exercised judgment and estimations and why a particular conclusion was reached. The Financial Reporting Council (FRC) has included in its report examples of good and inadequate disclosures as well as explanations as to why any information is inadequate.[10]

The FIN-FSA has asked a number of companies to expand their description of management judgment presented in the financial statements (see Figure 4).

Figure 4. Excerpt from FIN-FSA enforcement letter, with company-specific information deleted

It is necessary to expand the information presented, e.g. for the following items:

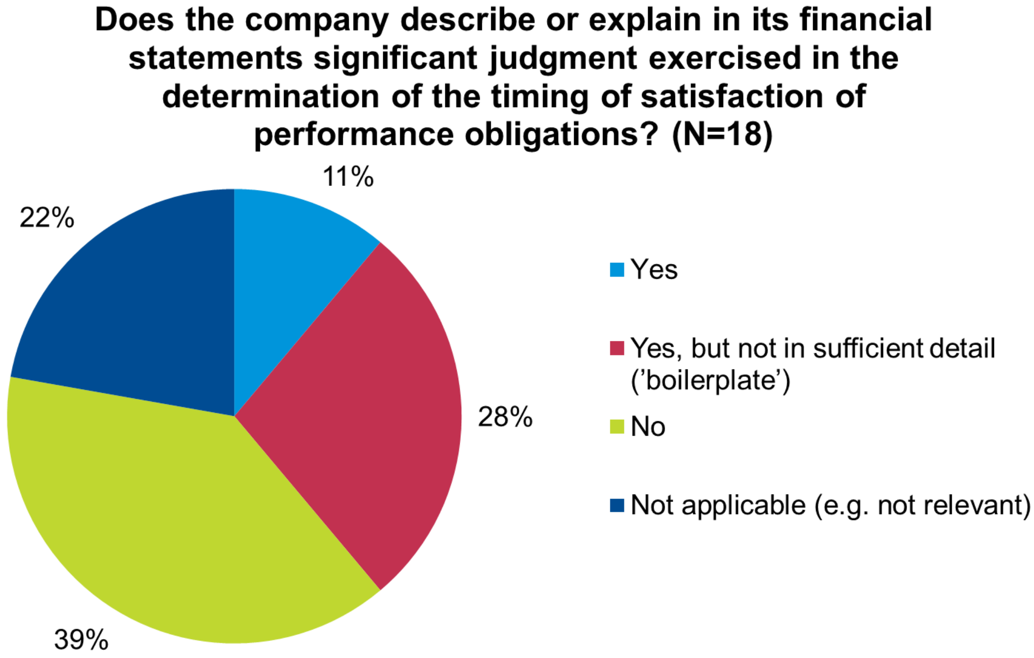
- *IFRS 15.123-126 Significant judgments in applying IFRS 15. The Company described in paragraphs X-X of its response 1 that it exercised management judgment and in response 2 that the management judgment related to method X applied in business X. The Company must assess with regard to the information presented to the FIN-FSA what it would also need to present in its future financial statements in order to meet the requirements of IFRS 15.123-126. The FIN-FSA requests that the Company also assess whether it would be necessary to link the management judgment items presented in different sections of the financial statements to each other, for example using reference technology.*

Source: Financial Supervisory Authority

In its report, the FIN-FSA also examined, among other things, management judgment in relation to the timing of satisfaction of performance obligations. For performance obligations satisfied over time, the methods used to recognise revenue must be disclosed and an explanation of why the methods used provide a faithful depiction of the transfer of goods or services (IFRS 15.124). For performance obligations satisfied at a point in time, the significant judgments made in evaluating when a customer obtains control of promised goods or services must be disclosed (IFRS 15.125).

[10] *A follow-up IFRS 15 thematic review by the Financial Reporting Council (2020) (p.14-15).*

Figure 5. Question on the timing of satisfaction of performance obligations in the FIN-FSA study



Source: Financial Supervisory Authority

Only a small proportion of the companies included in the study disclosed extensive information on management judgment related to the timing of satisfaction of performance obligations (see Figure 5). Just under a third of the companies disclosed some information and just over a third did not disclose any information. For some companies, this was not a relevant issue.

The FIN-FSA has asked some companies to expand on the management judgment related to the timing of satisfaction of performance obligations presented in the financial statements (see Figure 6).

Figure 6. Excerpt from FIN-FSA enforcement letter, with company-specific information deleted

> It is not clear from the Company's financial statements why the performance obligation for product X is considered to be satisfied earlier than for product Y.
>
> According to IFRS 15.125, for performance obligations satisfied at a point in time, an entity shall disclose the significant judgments made in evaluating when a customer obtains control of promised goods or services.
>
> *The Company is requested to disclose these significant judgments in its future financial statements.*

Source: Financial Supervisory Authority

FIN-FSA's conclusion: Information about management judgment is often presented on too general a level. It is often not sufficiently clear from the financial statements where management has exercised judgment and estimations related to revenue recognition and why a particular conclusion was reached. The analysis and conclusions made should be appropriately documented.

Identification of performance obligations is one of the cornerstones of the standard

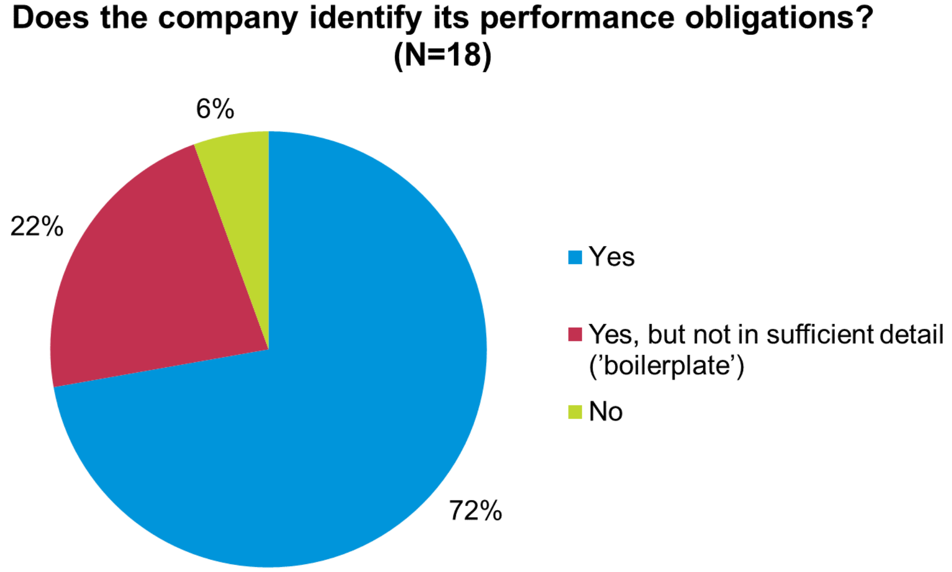
Performance obligations play a key role in the five-step revenue recognition model under IFRS 15. The separate promises in the contract with the customer must be identified as performance obligations, the transaction price determined for these separate promises/performance obligations, and revenue recognised when or as the promise of individual performance obligations is satisfied.

According to the IASB, investors have criticised companies' accounting policies for revenue recognition under the old standard as too general ('boilerplate') and therefore the new standard requires companies to disclose in their financial statements their performance obligations, e.g. all of the following

- the nature of the goods or services that the company has promised to transfer
- when the company typically satisfies its performance obligations
- significant payment terms
- obligations for returns, refunds and other similar obligations
- types of warranties and related obligations (IFRS 15.119).

The above-mentioned disclosures must be sufficiently company-specific and detailed in order to meet the requirements of IFRS 15.

Figure 7. Question on performance obligations in the FIN-FSA study



Source: Financial Supervisory Authority

Most of the companies included in the study identified their performance obligations (see Figure 7). Around one in five companies provided only a general description of performance obligations and some of the companies included in the study did not mention performance obligations in any way.

Companies should pay attention to the company-specific nature of the text of disclosures. For example, the following text is more a repetition of standard wording than a company-specific description of a performance obligation: “When a contract is entered into, the company assesses which goods and services promised in the contract with the customer are separately identifiable performance obligations.

The company considers goods and services to be its own performance obligations if the customer may benefit from the product or service either alone or together with other resources readily available to the customer, and if the promise to transfer the good or service to the customer is separately identifiable from other promises included in the contract."

The FIN-FSA has asked some companies to expand on the performance obligation information disclosed in the financial statements (see Figure 8).

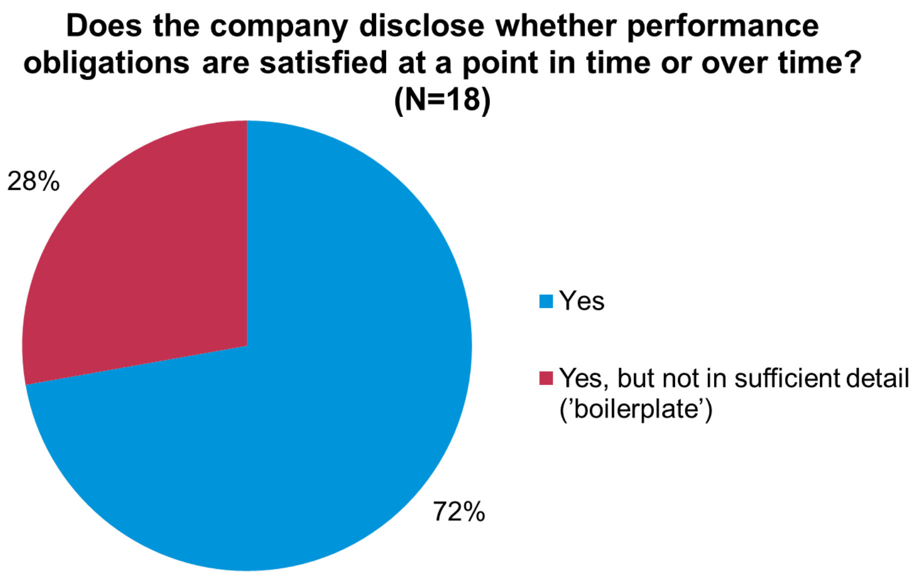
Figure 8. Excerpt from FIN-FSA enforcement letter, with company-specific information deleted

> The Company states on page X that in the contracts with customers of business areas X and X the entire project is considered to be a single performance obligation. On the other hand, in business area X performance obligation levels are dependent on the customer and the provided product/service.
>
> *The FIN-FSA draws the Company's attention to the disclosure requirements of IFRS 15.119 concerning the description of performance obligations, see items 15.119(a)-(e). The Company should assess how it would need to expand disclosures on performance obligations in future financial statements so that the presentation requirements of IFRS 15.119 are met.*
>
> *As revenue recognition information is significant for the Company, the Company is requested to submit a draft of expanded disclosures to the FIN-FSA.*

Source: Financial Supervisory Authority

Under IFRS 15, a company must state when it typically satisfies its performance obligations. The standard cites as examples upon shipment, upon delivery, as services are rendered or upon completion of service.

Figure 9. Question on the timing of satisfaction of performance obligations in the FIN-FSA study



Source: Financial Supervisory Authority

Most of the companies included in the study disclosed whether their performance obligations are satisfied at a point in time or over time (see Figure 9). Around a third of the companies still have room for improvement in disclosing this information. For example, the statement that “revenue is recognised primarily over time” is often not a sufficient expression.

If a company transfers control of a good or service over time and therefore satisfies the performance obligation over time, the company should disclose the management judgment it exercised in determining which of the following criteria is met:

a) the customer simultaneously receives and consumes the benefits provided by the company’s performance as the company performs
b) the company’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced
c) the company's performance does not create an asset with an alternative use to the company and the company has an enforceable right to payment for performance completed to date (IFRS 15.35).

The FIN-FSA has asked some companies to disclose in future financial statements when performance obligations are satisfied, for example with regard to the various types of contract mentioned by the company. The FIN-FSA has also asked individual companies to disclose which terms and conditions of contract determine whether revenue recognition over time is based on criterion 15.35 (c) or 15.35 (b).

FIN-FSA’s conclusion: Performance obligations, i.e. the promises included in contracts with customers and their fulfilment, are key issues in assessing compliance with the disclosure requirements of IFRS 15. The individual promises included in contracts with customers and the timing of their fulfilment must be described in sufficient detail, as the timing of the fulfilment of the promises determines the amount of the company’s revenue at the closing of the reporting period.

Balance sheet amounts based on contracts must be presented separately from other items

The company must present separately the opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers. In addition, the company must disclose, among other things, qualitative and quantitative information about significant changes made during the reporting period. (IFRS 15.116-118)

Most of the companies included in the study had named balance sheet items in accordance with IFRS 15 terminology. If an entity uses an alternative term for a contract asset, it must provide sufficient information to enable users of the financial statements to distinguish between receivables and contract assets. The FIN-FSA has mentioned this to individual companies.

About half of the companies included in the study presented contact assets or liabilities in their own lines in the balance sheet and they were presented as both current and non-current. The balance sheet items were very significant in many cases. Many companies presented in the notes to the financial statements a reconciliation of the changes between opening and closing balances. The companies included in the survey provided basically no verbal description of significant changes, but the reasons for significant changes were often revealed in the reconciliation.

In individual cases, the FIN-FSA has asked companies to provide additional information on the contract amounts entered in the balance sheet (see Figure 10).

Figure 10. Excerpt from FIN-FSA enforcement letter, with company-specific information deleted

In its response, the Company provides useful information on contract assets and liabilities in items X and X. The Company must assess with regard to the information presented to the FIN-FSA what it would also need to present in its future financial statements in order to meet the requirements of IFRS 15.116-118.

Source: Financial Supervisory Authority

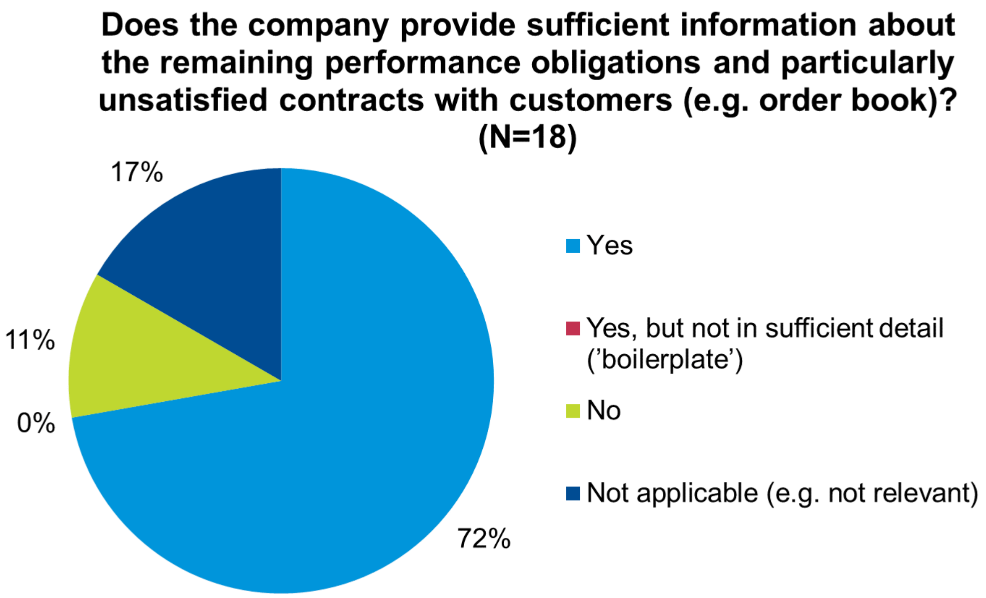
FIN-FSA's observation: Companies must pay attention to the clear presentation in the financial statements of the content of contract assets and liabilities.

Transaction price allocated to the remaining performance obligations is often the order book

The company must disclose at the end of the reporting period the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) and an explanation of when the company expects to recognise as revenue the amount disclosed (IFRS 15.120).

Different terms, such as order book, order intake and unsatisfied performance obligations, are used for the transaction price allocated to the performance obligations that are unsatisfied. For some companies, the transaction price allocated to the remaining performance obligations presented in the financial statements was the same as the order book presented in the report of the Board of Directors. For some companies, the figures presented in the financial statements and the report of the Board of Directors differed. In these cases, the figure presented in the management reports and may be, instead of an IFRS measure, an alternative performance measure to which the ESMA Guidelines[11] should be applied.

Figure 11. Question related to order book in the FIN-FSA study



Source: Financial Supervisory Authority

[11] Alternative Performance Measures (ESMA/2015/1415)

Most of the companies in the study disclosed good information on the remaining performance obligations and a small number did not disclose any information on them (see Figure 11). For all companies, the issue is not necessarily relevant. One company stated, for example: “The order book has not been presented, because the information is not relevant due to the nature of the Group's business.”

The FIN-FSA has asked some companies to supplement information on their order book (see Figure 12).

Figure 12. Excerpt from FIN-FSA enforcement letter, with company-specific information deleted

> The FIN-FSA requested from the Company the transaction price allocated to the remaining performance obligations of contracts with customers. This section (IFRS 15.120) most often refers, in practice, to the Company’s order book. The Company states in location X (p. X) that the profit forecast is based particularly on the order book and XX.
>
> *In its future financial statements, the Company is requested to take into account the requirements of IFRS 15.120–122 on the disclosure of the remaining performance obligations.*

Source: Financial Supervisory Authority

According to the FIN-FSA’s study, not all companies disclosed when they expect to recognise as revenue the remaining performance obligations. IFRSs provide two examples of possible methods of disclosure, either in table form (IFRS 15.IE218) or as text (IFRS 15.IE221).

FIN-FSA’s observation: The term used by the company for the transaction price allocated to unsatisfied performance obligations, i.e. order book, for example, should be clearly discernible in the financial statements. The company must ensure that the timing of expected revenue recognition is also disclosed for the remaining performance obligations. The company should also ensure that the remaining performance obligations in accordance with IFRS 15 presented in the financial statements are reconcilable with, among other things, the order book presented in the report of Board of Directors.

IFRS 15 requires continuous monitoring by both companies and enforcers

The high-quality application of the standard requires continuous assessment and monitoring by companies. The IASB has already issued eight IFRS Interpretations Committee decisions related to IFRS 15.[12] The FIN-FSA still considers to be topical the points it highlighted on the high-quality application of IFRS 15 at the 2018 event for listed companies[13] (see Figure 13).

[12] *IFRS Interpretations Committee agenda decisions that relate to IFRS 15*
[13] *Presentation on IFRS 15: Revenue from contracts with customers at 2018 event for listed companies (slide 76, in Finnish).*

Figure 13. Excerpt from the presentation at the 2018 event for listed companies

High-quality application of IFRS 15 in the future

- Monitoring the company's contract portfolio
  - Contract models may change and the effects of any changes on the recognition of the company's revenue should be assessed
- Further development and regular assessment of the company's financial statements revenue recognition principles and notes
  - Good practices are only just emerging
- Monitoring of IFRS Interpretations Committee decisions
  - The company should assess the impact of Interpretations Committee decisions on the recognition of the company's revenue
- There is more information and analysis on recognition and presentation of revenue than ever before
  - Publications of audit firms
  - Sector publications
  - Other companies' financial statements
  - Enforcers' reports and letters to companies

Source: Financial Supervisory Authority

IFRS 15 has been a European Common Enforcement Priority (ECEP) for several years. The FIN-FSA's study used a set of questions developed by ESMA in 2019 to monitor the IFRS 15 ECEP.[14] The Norwegian enforcer has also used the same set of questions in its own study and has published a report[15] with many of the same types of findings as in the FIN-FSA's report.

European enforcers have brought a large number of enforcement decisions for discussion at the European Enforcers Coordination Sessions (EECS). Since its entry into force, IFRS 15 has been on the agenda of almost every EECS meeting. In 2020, for example, enforcers discussed, among others, the following questions: Application of IFRS 15 in specific industries, the assessment of whether a company acts as an agent or principal, the allocation of transaction price to multiple performance obligations, the timing of recognition of revenue in specific circumstances, the disaggregation of revenue, the impact on certain types of taxes collected from a customer on the measurement of revenue and the presentation of (unbilled) revenue in the balance sheet and in the income statement.[16]

Only a small proportion of the issues jointly addressed by enforcers end up being published. A selection[17] of enforcement decisions made by European enforcers and published by ESMA in 2020 contained four IFRS 15 enforcement decisions. The FIN-FSA published summaries of these in Market newsletter 1/2020[18] and the contents of the decisions are still relevant.

[14] Monitoring of ESMA's IFRS 15 focus area is covered in ESMA's Report on enforcement and regulatory activities of European enforcers in 2019 (p.12-17).
[15] Thematic review of IFRS 15 by the Financial Supervisory Authority of Norway (2019)
[16] ESMA report on enforcement and regulatory activities of European enforcers in 2020 (p.39).
[17] ESMA 24th Extract from the EECS's Database of Enforcement
[18] Market newsletter 1/2020 (p.20-21).

FIN-FSA’s observations: Companies should regularly assess the financial statements revenue recognition policies and notes, particularly as business models and earnings logics change. The assessment should also take into account the views of the FIN-FSA, ESMA’s enforcement decisions and the decisions of the IFRS IC. Revenue is one of the most important performance measures in the financial statements.

For further information, please contact

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Topical matters at ESMA

ESMA has launched a consultation on retail investor protection aspects related to the Markets in Financial Instruments Directive (MiFID II). The responses will be assessed as part of ESMA’s technical advice to the Commission on its retail investment strategy. Responses to the consultation can be submitted until 2 January 2022.

ESMA launched a consultation on the review of the Short Selling Regulation. The response period runs until 19 November 2021. In addition, ESMA’s consultation for a review of the MiFID II framework for best execution reports is open until 23 December 2021.

The European Supervisory Authorities’ (ESAs) consultation on key information documents for packaged retail and insurance-based investment products (PRIIPs) is open until 16 December 2021.

On 22 October 2021, the ESAs delivered to the European Commission for adoption draft Regulatory Technical Standards regarding disclosures under the Sustainable Finance Disclosure Regulation (SFDR) as amended by the Regulation on the establishment of a framework to facilitate sustainable investment (Taxonomy Regulation).

Verena Ross was appointed Chair of the European Securities and Markets Authority (ESMA) by a decision of the Council of the European Union on 15 October 2021. Ms Ross began her five-year term as Chair on 1 November 2021. She previously served as Executive Director of ESMA from 2011 to 2021.