

THE DANISH SECURITIES COUNCIL (FONDSRÅDET)

Report on financial reporting enforcement activities by the Danish Securities Council, 2008**Introduction**

In 2008, the Danish Securities Council continued its financial reporting enforcement activities regarding the annual and interim reports of listed undertakings. In this context the Danish Securities Council has adopted some guidelines for assessment of materiality as well as new action options, and these will be reviewed briefly to start.

New guidelines regarding materiality as well as revised practice regarding actions

In financial reporting enforcement activities, the Danish Financial Supervisory Authority (Danish FSA) and the Danish Commerce and Companies Agency, as secretariats for the Danish Securities Council, conduct a review of selected annual reports and interim reports with a view to seeing whether they meet the relevant accounting regulations. In the event that they deviate from the accounting regulations, a decision is made as to the materiality of the matter, as well as to whether there should be an action towards the company submitting the annual/interim report.

On 17 December 2008, the Danish Securities Council published its general considerations and deliberations on the assessment of materiality in relation to its financial reporting enforcement activities, see www.fondsraadet.dk.

These considerations and deliberations provide guidelines for the secretariats' work on materiality in connection with financial reporting enforcement activities, and although the guidelines are primarily aimed at the secretariats, they will also help undertakings which can use these guidelines to determine priorities in the assessment of materiality.

This memo first reviews materiality in more general terms and confirms that the concept of materiality is the same, irrespective of whether financial statements are prepared in accordance with IFRSs or pursuant to Danish accounting regulations. With regard to recognition and measurement, it is confirmed that specific decisions made previously will also be relevant for future decisions. Finally, a number of other areas are reviewed, not least disclosure requirements.

As can be seen in the published memo, anything which has previously been described as a material error will in future be called an error, and anything which has previously been referred to as a non-material error will in future be called a permissible departure.

This will also affect future actions.

For permissible departures (previously non-material errors/errors and omissions deemed not to have significance for investors) actions will no longer be forward orders. Instead, the undertaking will be informed that financial reporting enforcement activities have revealed a permissible departure from the accounting regulations. As the departure is permissible,

there are no requirements for the undertaking to correct the matter. If the undertaking continues the departure, the undertaking must, however, assess the materiality for each presentation of financial statements in order to determine whether there is still a permissible departure, or whether, as a result of the departure, or the scope and/or nature of the departure, this is now an error. In this context it should be noted that several permissible departures together may add up to an error. It should further be noted that it is not permitted to allow (permissible) departures to remain uncorrected, if this is intended to result in a specific presentation of the financial situation of the undertaking, its profit or cash flows.

As previously, errors (previously material errors/omissions) will prompt an order for either a new annual/interim report or corrective/supplementary information. As previously, insignificant departures will not prompt an action.

Summary of the results of enforcement activities

In 2008 the Danish Securities Council conducted financial reporting enforcement activities for a total of 40 annual/interim reports. Seven of the cases have yet to be concluded.

Of the 40 annual/interim reports selected for financial reporting enforcement activities, 12 or 30 per cent were randomly selected, while 28 or 70 per cent were selected on the basis of a prior risk assessment. This means annual/interim reports in which there were conditions for which experience indicates that there is a higher risk of errors and omissions.

As the majority of the annual/interim reports were selected on the basis of a previously completed risk assessment, the result of the enforcement activities cannot be considered as a general indication of the quality of all annual/interim reports.

The Danish Securities Council found (material) errors and omissions which the Council deemed to have significance for investors' decision-making in five of the annual/interim reports, corresponding to 15 per cent of the 33 reports inspected. These five annual/interim reports had all been selected on a risk-based foundation.

The Danish Securities Council found permissible departures from the regulations, i.e. departures which the Council deemed not to have significance for investors' decision-making in 11 of the annual/interim reports, corresponding to 33 per cent of the 33 reports inspected.

The Danish Securities Council found no departures giving rise to an action towards the undertakings in 17 of the annual/interim reports, corresponding to 52 per cent of the reports inspected. The majority of these were selected at random.

With regard to the distribution of errors and omissions between annual reports selected on a risk-based foundation and annual reports selected randomly, (material) errors and omissions were found in five reports, corresponding to 23 per cent of the reports selected on a risk-based foundation, while no (material) errors were found in the randomly selected reports.

The number of annual/interim reports inspected with (material) errors has fallen since 2007. In 2007, 24 per cent of all the annual/interim reports inspected had (material) errors.

It is also positive to note that in 2008 the Danish Securities Council saw more cases in which, as a result of dialogue with the Council's secretariats, undertakings themselves have decided to publish corrective/supplementary information on their annual/interim reports before the final decision by the Danish Securities Council. Another positive development is that the Danish Securities Council has had cases in which undertakings have submitted accounting questions in order to get a decision from the Danish Securities Council. This reduces the risk that an annual/interim report has to be changed after publication because of an error.

The nature of the errors ascertained and actions by the Danish Securities Council

The five cases with (material) errors and omissions include the following:

- omission to disclose information on risks and omission to disclose information on fair values,
- incorrect and misleading recognition of transaction costs,
- omission to publish interim report of a parent company,
- errors in write-downs on loans as a result of an incorrect model for group-wise write-downs, and
- omission of elements in an interim report.

In two of the five cases with (material) errors and omissions, undertakings decided to publish corrective/supplementary information themselves following the Danish Securities Council's consultation with the undertaking. In two other cases the Danish Securities Council ordered the management of the undertakings to publish corrective/supplementary information to the annual report, and in the last case the Danish Securities Council ordered the undertaking to correct the error forward as the error occurred in an interim report and the undertaking subsequently issued an annual report in which the error had been corrected.

In the 14 cases for which the Danish Securities Council found departures from the regulations, which were not deemed to be significant for investors' decision-making, the Danish Securities Council prior to the change of practice described in the introduction, issued an order to the undertakings to correct the transgressions in the next annual/interim reports. Following the change in practice, the Danish Securities Council informed the undertaking that, in the event of continued departures, an assessment of materiality should be conducted for each accounts presentation in order to clarify whether the departure was still a permissible departure, or whether it was now an error. For the majority of the 14 cases the departure consisted in a lack of information. In a number of cases there were also recognition and measurement departures. The Danish Securities Council did however not consider these as material for the assessment of the financial statements.

Decisions regarding cases from previous years

In addition to the cases mentioned above, in 2008 the Danish Securities Council made decisions on (material) errors and omissions of significance for investors' decision-making found in four annual/interim reports for which enforcement activities commenced in 2007.

Cases brought before the Company Appeals Board

No reporting enforcement cases were brought before the Company Appeals Board in 2008.

Publication of decisions

Cases decided by the Danish Securities Council are published on the Council's website under [material and/or principle decisions \(Danish only\)](#).