D E C I S I O N

THE COUNCIL FOR SWEDISH FINANCIAL REPORTING SUPERVISION

Company
Att. CFO

8_2024

Review of 2022 annual report

The Council for Swedish Financial Reporting Supervision ('the Council') has reviewed the financial information presented in Company's ('the Company') 2022 annual report. Based on its review, the Council submitted questions to the Company on 1 September 2023 and 19 December 2023. The Council received the Company's responses on 6 October 2023 and 2 February 2024. Based on the written correspondence and other communication pertaining to the matter, the Council considers that the Company departs in certain respects from IFRS regulations in a manner that may affect evaluation of the Company's financial information. The Council's assessment is presented below. The Company was given the opportunity to comment on the Council's preliminary assessment in the Council's notice of 18 April 2024.

1. IFRS 15/IFRS 8 – Disaggregation of revenues

In the income statement, four revenue streams are reported: Revenue A with 56 percent of total revenue, Revenue B with 40 percent; and positive and negative revaluations on investments (Revenue C+D) with 10 percent and minus 10 percent respectively.

The Company discloses in the notes the breakdown of revenues by segment, which are Segment CM with 22 percent of revenue, Segment SM with 32 percent and Segment PI with 46 percent. In addition, a geographical segmentation is presented.

To understand the relationship between the information on disaggregated revenue in accordance with IFRS 15 p 114 and the revenue information disclosed for each reportable segment in accordance with IFRS 8, information on revenue categories should also be disclosed by each operating segment, in accordance with IFRS 15 p 115.

In the notes to the financial reports, section "Revenue recognition", it is stated that the Group applies IFRS 15 for the Segment CM, while the Segment PI is stated to apply IFRS 9. In communication with the Company, it has emerged that revenues from the Segment SM, as well as a minor part (9 percent) of Segment PI, also apply IFRS 15. This total corresponds to the income statement's revenue from customers. This is not explained in the note. The category defined by the company in accordance with IFRS 15 p 114, is geography. The Council notes that the current geographical breakdown includes all revenues. Revenues that comply with IFRS 15 are specified but not separated into geographical areas.

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Decision

The Council considers that the omitted information on revenue in accordance with IFRS 15, p 114 and 115, with regard to the separation of revenue in accordance with IFRS 15, and the segment presentation by category, is a minor regulatory violation pursuant to §13 second section of the Swedish Financial Supervisory Authority's regulations (FFFS 2018:18) and requests the Company to provide the relevant information in next year's annual report.

The council has noted that the requested information has been presented in the annual report for 2023.

2. IFRS 7 – Disclosure of purchased credit-impaired assets

The Company's largest asset is PI investments and it represents 40% of the company's total assets. In note to the annual report, the Company explains that PI investments are classified as purchased credit-impaired assets in accordance with IFRS 9. The disclosures show that purchases of impaired receivables for the year amount to a substantial amount. IFRS 7 p 35 H c requires an entity to disclose the aggregate amount of undiscounted expected credit losses on initial recognition for financial assets that are credit-impaired, at the time of the purchase. The Council has noted that this information is not presented in the annual report. In communication with the Company, it has also emerged that the Company lacks a model for compiling and presenting the requested information.

In communication with the Company, the Council has understood that the Company intends to present the requested information in the annual report for 2024.

Decision

The Council considers that the omitted information on purchased credit-impaired assets in accordance with IFRS 7 p 35 H c is a minor regulatory violation pursuant to §13 second section of the Swedish Financial Supervisory Authority's regulations (FFFS 2018:18) and requests the Company to provide the relevant information in next year's annual report.

3. IFRS 12 – Disclosures of joint ventures

The Company reports "Shares and participations in joint ventures" using the equity method. The carrying values are substantial and has decreased by 80 percent from previous year. In the income statement, a significant loss is reported as participation in associated companies and joint ventures.

The note shows equity participations in eleven joint ventures. In the specification to the note, two exposures dominate – Company A and B with substantial assets. The Council understands that the disclosures also include the investments made in joint ventures, in the form of so-called profit participating notes, as well as junior notes and mezzanine notes.

In the 2021 Annual Report, the equivalent to Company B was reported separated in several companies, presenting a combined net asset of SEK 1.1bn. In the 2022 Annual Report, Company B reports substantial negative net assets of approximately SEK 20bn, which also applies to 2021. No information is given as to why the 2021 figures have changed or to what extent the Company has a commitment to cover the substantial negative net assets.

Company A reports a substantial loss and negative revenue. The note specifies that the result is an effect of joint venture income and impairment losses, which together contributed to a substantial loss in the Company, which was included as part of the share of profit in associated companies.

Company B reports a loss of SEK 0,2bn, with revenues of approximately SEK 3bn, while the comparable year shows a substantial loss, with negative revenues. In the previous year's annual report (2021), a very different combined result was reported for the companies.

Company A is owned to more than 60 percent, but the annual report does not provide an explanation as to why Company A is a joint venture and not a subsidiary. Company B is the sum of several companies, of which most companies are 30 percent owned, one is 44 percent owned and one is owned to 49 percent. According to the note, there is a "co-investment agreement" covering Company B, which stipulates that all important financial and operational decisions must be taken jointly by the co-investors.

Regarding the transfer of profits/cash flows from the joint venture companies, the note lists several instruments. In Company A, the Company is stated to own profit participating notes, as well as junior and mezzanine notes issued by a SPV. It is also stated that Company A owns 95% of the profit participating notes in the subsidiary 'Company AA'. Company B states that the Company has a service agreement, and that the Company also has invested in mezzanine bonds and junior bonds.

The Company's reply to the Council, explains that the share capital does not provide any influence on the activities of the respective companies, nor does it entitle the Company to returns, other than repayment of the original investment. Company AA is stated to be a subsidiary of Company A because Company A holds more than 50 percent of the voting rights in Company AA. Furthermore, it is stated that the power over Company A is shared equally between the Company and the co-investor through mutual agreements.

In response to a question from the Council, the Company has stated that, as far as the owners' returns from Company A are concerned, these are received through the profit participating notes, which ensures that surpluses in Company A can be delivered to the owners. Company AA delivers surplus to Company A through junior notes and mezzanine notes. The annual report states that the Company receives 60 percent of the surplus generated in Company AA.

In addition to the above, the Company stated in its response to the Council that the commitments of the associated companies cannot be transferred to the Company.

Applicable standards

IFRS 12 states that the entity must disclose significant judgments and assumptions that it has made, partly to determine that it has joint control over an arrangement or significant influence over another entity (IFRS 12, p 7 b) and partly the type of joint arrangement if the arrangement has been structured through a separate vehicle (IFRS 12 p 7 c). To meet this requirement, IFRS 12 p 9 (a) further states that the entity shall disclose significant judgments and assumptions made in determining that it does not have control over another entity even though it holds more than half of the voting rights in the other entity.

IFRS 12 p 20 requires an entity to disclose information that makes it possible to evaluate the following: (a) the nature, extent and financial effects of its interests in joint arrangements and associates, including the nature and effects of its contractual relationship with the other investors with joint control or significant influence over joint arrangements and associates; and (b) the nature of and changes in the risks associated with interests in joint ventures and associates.

IFRS 12 p 21 (a) requires an entity to disclose the nature of the entity's relationship with the joint venture arrangement or associate (paragraph (ii)), as well as the proportion of ownership interest or participating shares held by the entity and, if different, the proportion of voting rights held by the entity (paragraph (iv)).

IFRS 12 p 22 (a) The entity shall also disclose the nature and extent of significant restrictions (e.g., resulting from borrowing arrangements, regulatory requirements, or contractual agreements between investors with joint control of, or significant influence over a joint venture or associate) on the ability of joint ventures or associates to transfer funds to the entity in the form of cash dividends, or to repay loans or advances made by the entity.

IFRS 12 B14. The condensed financial information disclosed in accordance with paragraphs B12 and B13 shall be the amounts included in the IFRS financial statements of the joint venture. The amounts included in the IFRS financial statements of the joint venture shall be adjusted to reflect the adjustments made by the entity to the equity method applied, such as fair value adjustments at acquisition date and adjustments for differences in accounting policies. The company shall provide a summary reconciliation of the financial information with the carrying amount of its interest in the joint venture.

The Council's overall assessment is that the information provided in note 14 does not meet all requirements listed in IFRS 12 above. In summary, the Council expects additional information on ownership interests, voting rights, other agreements that affect the owners' ability to exercise power, information on agreements that increase or limit the Company's ability to obtain future surpluses on the equity investment, information on any allocation of current surpluses in the associated companies, and information on returns from the investment instruments that the Company owns in the associated companies that are not shares.

Decision

The Council deems that the partially omitted information on associated companies and joint ventures in accordance with IFRS 12 p 7 b) and c), IFRS 12 p 9 a), IFRS 12 p 20 a) and b), IFRS 12 p 21 a) ii and iv, IFRS 12 p 22 a) and IFRS 12 B14 is a minor regulatory violation pursuant to §13 second section of the Swedish Financial Supervisory Authority's regulations (FFFS 2018:18) and requests the Company to provide the relevant information in next year's annual report.

The council has noted that the requested information has been presented in the annual report for 2023.

The Council has no further comments as regards other issues that have arisen during the review.

The Council will inform the Swedish Financial Supervisory Authority (FSA) of its decision. The measures covered by the decision will be followed up. If the Council finds that the Company fails to comply with the decision, the matter will be referred to the FSA.[1] The decision will be published on the Council's website in anonymised format. All transmitted documents will be available in Admincontrol for 30 days following this decision, after which access will be terminated.

Kind regards,

Maria Snöbohm
Chair

Göran Melin
Deputy chair

[1] FFFS 2018:18 §14.