

Finansinspektionen's Regulatory Code

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Regulations

amending Finansinspektionen's regulations and general guidelines (FFFS 2008:25) regarding annual accounts for credit institutions and securities companies;

decided 13 November 2017.

Finansinspektionen prescribes, pursuant to section 4 points 1–3 of the Annual Reports at Credit Institutions, Securities Companies and Insurance Undertakings Ordinance (1995:1600) and section 19b of the Foreign Branch Offices Ordinance (1992:308) that Chapter 1, section 1, Chapter 3, section 10, Chapter 4 sections 1, 3 and 4, Chapter 5, sections 3, 15 and 23, sections 4, 17 and 20 of Appendix 1, sections 2, 7–9 and 12–15 of Appendix 2 and the headings immediately preceding Chapter 4, section 3 and Chapter 5, section 15 of Finansinspektionen's regulations and general guidelines (FFFS 2008:25) regarding annual accounts for credit institutions and investment companies shall have the following wording.

Finansinspektionen also provides the following general guidelines.

Chapter 1

Section 1 These regulations and general guidelines shall be applied by credit institutions and securities companies when preparing their annual report, consolidated financial statements and interim reports in accordance with the Annual Accounts for Credit Institutions and Securities Companies Act (1995:1559).

The rules in sections 2 and 3 and in Chapters 7 and 8 apply to financial holding companies that in accordance with Chapter 1, section 1 of the Annual Accounts for Credit Institutions and Securities Companies Act shall apply the provisions for consolidated financial statements in Chapter 7 of the same act.

The rules in sections 2 and 3, Chapters 2–4, Chapter 5, sections 21, 22 and 24 and Chapter 6 apply for the branches of foreign credit institutions and securities companies that shall apply the Annual Accounts for Credit Institutions and Securities Companies Act when preparing their annual report in accordance with Chapter 6, section 3a of the Bookkeeping Act (1999:1078).

The rules in sections 2 and 3 and Chapters 2–4 apply to the branches of foreign credit institutions and securities companies that shall apply the Annual Accounts for Credit Institutions and Securities Companies Act when preparing their annual accounts in accordance with Chapter 6, section 3a of the Bookkeeping Act.

FFFS 2017:18

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Chapter 3

Section 10 Held-for-trading securities in accordance with IFRS 9 *Financial Instruments* shall be reported as Held for trading purposes in accordance with the Annual Accounts Act (1995:1554).

Chapter 4

Section 1 Taken-over property shall be classified as a current asset in accordance with the Annual Accounts for Credit Institutions and Securities Companies Act (1995:1559). If the property is a financial asset, it shall be classified as a financial asset that is reported at fair value through profit or loss or – if the conditions for such reporting are met – at fair value through other comprehensive income. If the property is tangible property, it shall be measured as inventories.

General guidelines

This section sets out how taken-over property shall be treated in a valuation context. Taken-over property is defined in Chapter 1, section 2. Rules for the valuation of financial assets measured at fair value and inventories are set out in International Financial Reporting Standards, cf. IFRS 13 *Fair Value Measurement* and IAS 2 *Inventories*.

Application of IFRS 9 *Financial Instruments*

Section 3 An institution shall not apply point 2 regarding IFRS 9 *Financial Instruments* in RFR 2 *Accounting for Legal Entities* on exemptions from IFRS 9.

Section 4 A lessor that, pursuant to RFR 2 *Accounting for Legal Entities*, reports a financial leasing agreement as an operational leasing agreement

- may depreciate the leased assets in accordance with the annuity method, even if this would not be consistent with IAS 17 *Leases*, cf. IAS 17 point 53, and
- should apply the rules for financial leasing agreements in terms of impairment losses and reversals of impairment losses for the leased asset, cf. IFRS 9, points 2.1(b)(i), 5.5.1 and 5.5.15(b).

Chapter 5

Section 3 Each of the items “Bonds and other interest-bearing securities” (Assets, item 5), “Shares and participations” (that are not included in items 7, 8 or 9) (Assets, item 6), “Shares and participations in associates and joint ventures” (Assets, item 7), “Shares and participations in Group companies” (Assets, item 8) and “Shareholdings in other companies” (Assets, item 9), when applying IFRS 13 *Fair Value Measurement*, shall be divided in the note into levels 1, 2 or 3 in accordance with the fair value hierarchy.

Impairment of financial non-current assets

Section 15 For each of the items “Impairment of financial non-current assets” (item 13) and “Reversals of impairment of financial non-current assets” (item 14), the impairment losses and reversals of significance shall be disclosed in a note.

Section 23¹ An unlisted securities companies whose balance sheet total for the two most recent financial years does not exceed 1,000 basic amounts in accordance with Chapter 2, section 7 of the Social Insurance Code (2010:110) only needs to provide disclosures in accordance with the following approved international financial reporting standards:

- IFRS 4 *Insurance Contracts*.
- IFRS 7 *Financial Instruments: Disclosures*.
- IFRS 13 *Fair Value Measurement*.
- IFRS 15 *Revenue from Contracts with Customers*.
- IAS 1 *Presentation of Financial Statements*, in the section on capital disclosures.
- IAS 7 *Statement of Cash Flows*.
- IAS 10 *Events After the Reporting Period*.
- IAS 16 *Property, Plant and Equipment*, with the additions made in section 4 in relation to IAS 16 in RFR 2 *Accounting for Legal Entities*.
- IAS 17 *Leases*, with the exceptions and additions made in section 1 in relation to IAS 17 in RFR 2 *Accounting for Legal Entities*.
- IAS 19 *Employee Benefits*, with the exemptions and additions set out by point 1 regarding IAS 19 in RFR 2 *Accounting for Legal Entities*, if the pension commitment is of a significant nature.
- IAS 21 *The Effects of Changes in Foreign Exchange Rates*.
- IAS 23 *Borrowing Costs*.
- IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.
- IAS 38 *Intangible Assets*, with the additions set out in points 3 and 6 regarding IAS 38 in RFR 2 *Accounting for Legal Entities*.
- IAS 40 *Investment Property*, with the addition made in section 3 in relation to IAS 40 in RFR 2 *Accounting for Legal Entities*.

The first paragraph shall not apply if the institution

- prepares or is covered by consolidated financial statements, or
- has an international connection.

In the note that describes the accounting policies applied, the institution shall indicate whether it has applied disclosure reliefs.

1. These regulations and general guidelines enter into force 1 January 2018 and are initially applied to annual financial statements, annual reports and consolidated financial statements prepared for financial years commencing immediately after 31 December 2017 and in interim reports prepared for parts of such financial year. The provisions set out in Chapter 1, section 1 are initially applied to annual financial statements and annual reports that are prepared as at 31 December 2017.

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¹ The amendment entails in part that IAS 18 *Revenue* has been removed.

Appendix 1

Section 4² Assets: Item 3 — Loans to credit institutions. This item covers loans and advances to credit institutions and central banks. Credit institutions also refer to corresponding foreign institutions, including international banking organisations.

The provision in the first paragraph does not apply to

1. loans and advances that are represented by bonds or other interest-bearing securities that shall be reported under Treasury bills eligible for refinancing etc. (Assets, item 2) or Bonds and other interest-bearing securities (Assets, item 5),
2. balances with central banks that are readily available at all times and which shall be reported under Cash and balances with central banks (Assets, item 1), and
3. claims on such financial holding companies as those set out in Chapter 1, section 1, second paragraph.

General guidelines

Claims at central banks and credit institutions include clearing claims for the institution concerned.

For a genuine repurchase transaction, the transferee reports in accordance with Chapter 3, section 8, second paragraph the consideration as a claim on the transferor. The claim should be reported under this item if the transferor is a credit institution or a central bank. Otherwise the claim is reported under Loans and advances to customers (Assets, item 4).

A claim in the form of cash collateral for securities borrowing should be reported under this item if the lender is a credit institution or a central bank. Otherwise the claim is reported under Lending to the general public (Assets, item 4).

Section 17³ Liabilities, provisions and equity: Item 3 — Issued securities, etc. Bonds and other debt for which negotiable securities have been issued, for example certificate of deposit and debt arising out of own acceptances or promissory notes, are reported here.

Only bills or notes which a credit institution has issued for its own refinancing and in respect of which it is the first party liable (drawee) shall be treated as own acceptances.

This requirement does not apply to debt reported under Subordinated liabilities (Liabilities, provisions and equity, item 7).

Debt through own acceptances or bills/notes and similar securities are reported under sub-item 3.b Other.

Repurchased own-debt securities shall be deducted from the outstanding liability.

² The amendment entails in part that the fourth paragraph of the general guidelines has been removed.

³ The amendment entails in part that the second paragraph of the general guidelines has been removed.

General guidelines

The primary criterion for the demarcation between issued securities in item 3 and liabilities in items 1 and 2 should be whether the claim on the institution is negotiable or transferable from the point of view of the creditor. Liabilities that correspond to bearer securities are normally reported under this item. Non-transferable securities are normally reported under Liabilities to credit institutions (item 1) or Deposits and borrowings from the public (item 2).

Section 20 Liabilities, provisions and equity: Item 6 — Provisions. Provisions are reported here, cf. Chapter 3, section 2 of the Annual Accounts for Credit Institutions and Securities Companies Act (1995:1559) and Chapter 3, section 9 of the Annual Accounts Act (1995:1554).

Sub-item 6a Provisions for pensions and similar obligations covers provisions in accordance with the Safeguarding of Pension Commitments Act (1967:531) and other provisions for compensation to employees after terminated employment. Chapter 3, section 3 contains requirements as to when provisions for pension commitments for employees shall be recognised in the balance sheet.

General guidelines

Provisions for loan commitments and financial guarantees that are not derivatives can be included in sub-item 6c Other provisions.

Appendix 2

Section 2 Item 1 — Interest income. Income from assets that are recorded under Assets, items 1-5 in the balance sheet (Cash and balances with central banks, Treasury bills eligible for repayment etc., Loans and advances to credit institutions, Loans to the public and Bonds and other interest-bearing securities) are reported here.

Income in the form of any commission similar in nature to interest that is calculated on a time basis or by the amount of the claim is reported here.

General guidelines

Interest income and expenses on any interest rate swaps that protect interest-bearing assets in hedge accounting should be included here.

Payments that are taken into consideration when calculating the effective interest rate should be reported here.

Payments that are not taken into consideration in accordance with the effective interest rate method should not be reported in this item, cf. IFRS 15 and related guidelines. These payments should be reported in accordance with section 6.

Income from any loan commitments where it is probable that a loan will be entered into shall be reported under this item, cf. IFRS 15 and related guidelines.

Section 7 Item 6 — Commission expenses. Expenses for services received are reported here, to the extent that they cannot be considered to be interest, see section 4.

General guidelines

Examples of commissions and the presentation of commission expenses in a securities company's profit and loss statement can be found in section 6.

Any transaction costs that are to be taken into consideration when calculating the effective interest rate should not be reported here, cf. IFRS 9 *Financial Instruments*.

Section 8⁴ Item 7 — Net profit or net loss on financial transactions. This item covers

1. the net profit or net loss of trading with financial instruments and trading with precious metals,
2. value changes of the financial instruments that are measured at fair value through profit or loss and precious metals, and
3. net profit or net loss on currency exchange activities and other recognised changes in the value of assets and liabilities in foreign currency to the extent they can be attributed to exchange rate changes that will be reported in the profit and loss statement.

⁴ The amendments entail in part that the second paragraph and the last paragraph of the general guidelines have been removed.

Net profits, net losses or value changes that are to be recognised as interest in accordance with sections 2 and 4 shall not be included here.

General guidelines

In the profit or loss item, impairment losses and reversals of these losses should be reported when they apply to bonds and other interest-bearing securities measured at fair value through other comprehensive income. The profit or loss item should also include reclassification adjustments arising when financial assets are measured at fair value through other comprehensive income are removed from the statement of financial position.

Net profit and net loss and value changes of financial guarantees that are derivatives can be reported here.

Net profit, net loss and other reported value changes relating to trading with emissions rights and electricity certificates can be reported under this item.

An institution which deviates in its profit and loss statement from the provisions on merging items or from requirements on offsetting in accordance with IAS 1 should detail this in a note.

Section 9 Item 8 — Other operating income. Any operating income that cannot suitably be included under any other item is reported here, for example statute-barred funds, income from real estate and capital gains when selling tangible and intangible assets that are held to maturity.

General guidelines

The difference between the carrying amount of a financial liability (or part of a financial liability) that has not been extinguished or transferred to another party and the consideration paid (interest differential compensation), including any non-cash assets transferred or liabilities assumed can be reported here, cf. IFRS *Financial instruments*. This also applies to differences from the early repayment of financial assets, valued at the amortised cost (interest differential compensation).

Section 12 Item 11 — Other operating expenses. Any operating expenses that cannot suitably be included under another item are reported here.

Operating costs for real estate are also reported here.

General guidelines

Expenses that can be reported here include, for example, marketing expenses and insurance expenses.

The difference between the carrying amount of a financial liability (or part of a financial liability) that has not been extinguished or transferred to another party and the consideration paid (interest differential compensation), including any non-cash assets transferred or liabilities assumed can be reported here, cf. IFRS *Financial instruments*. This also applies to differences

from the early repayment of financial assets, valued at the amortised cost (interest differential compensation).

Section 13⁵ Item 12 — Credit losses, net. This item covers

1. impairment loss on loans and advances that are included under the items Loans to credit institutions (Assets, item 3) or Loans to the public (Assets, item 4) and impairment losses on interest that have been capitalised in previous annual accounts,
2. provisions attributable to loan commitments and financial guarantee agreements and other provisions for such contingent liabilities and commitments as would otherwise have been included in the note on contingent liabilities,
3. expenses for impairment losses on leasing receivables and contractual assets,
4. income from the recovery of impaired loans, and
5. reversals of previous impairments or provisions.

General guidelines

The net cost of meeting guarantees provided should be assessed with reference to the value of any rights of recourse.

Section 14⁶ Item 13 – Impairment of financial non-current assets. This includes impairment losses on financial assets that are included under

- Bonds and other interest-bearing securities (Assets, item 5),
- Shares and participations in associates and joint ventures (Assets, item 7), or
- Shares and participations in Group undertakings (Assets, item 8).

Section 15 Item 14 — Reversals of impairment losses on financial non-current assets. Amounts that have been reversed following previous impairment losses on financial assets are reported here, if the impairment loss has been expensed in accordance with section 14.

⁵ The amendment entails in part that the first paragraph of the general guidelines has been removed.

⁶ The amendment entails in part that “Shares and participations (that are not included in items 7, 8 or 9) (Assets, item 6)”, “Shareholdings in other companies (Assets, item 9)” and the general guidelines have been removed.

*Appendix 3***Presentation of the income statement***General guidelines*

The income statement should contain the entries listed below.

1. Interest income
2. Lease income
3. Interest expenses
NET INTEREST INCOME
4. Dividend income
5. Commission income
6. Commission expense
7. Net result of financial transactions
8. Other operating income
TOTAL OPERATING INCOME
9. General administrative expenses
10. Depreciation/amortisation and impairment of property, plant and equipment and intangible non-current assets
11. Other operating expenses
TOTAL EXPENSES BEFORE CREDIT LOSSES
PROFIT/LOSS BEFORE CREDIT LOSSES
12. Credit losses, net
13. Impairment of financial non-current assets
14. Reversals of impairment of financial assets
- 14A. Share of participating interests
OPERATING PROFIT/LOSS
15. Appropriations
16. Tax on profit or loss for the year
17. Other taxes
PROFIT OR LOSS FOR THE YEAR

Securities companies may report Commission income and Commission expense before interest income, in accordance with section 6 of Appendix 2.

Information on net interest income is provided in accordance with Chapter 5, section 11. Only companies that do not report leasing in accordance with the rules for operating leases can report net interest income in their profit and loss statement in the sub-summary row NET INTEREST INCOME.

In accordance with section 16 of Appendix 2, shares of profit or loss from shareholdings reported using the equity method are reported in item 14A Share of profit or loss from shareholdings.