



INSTRUCTION 1-2006

Application of Code rules regarding reports on internal controls

In December 2005, the Board presented a decision on a transitional provision for Code rule 3.7.2, stating that it was sufficient for boards, with clear reference to the Board's decision, to restrict reports on internal controls regarding financial reporting to how the internal controls are organized, without needing to report on how well the controls have worked or to have the report reviewed by the auditor.

As reported in the Board's annual report for 2006, the majority of companies dealt with this issue in accordance with the Board's statement. The Board has also noted that the Code has led to significantly greater focus on internal controls, and that many companies have started ambitious projects to develop their internal control procedures, including risk management.

Debate on this rule has continued during spring 2006. The information value of a board evaluation of the efficiency of internal controls has been questioned, as has the requirement of an auditor's review. Furthermore, developments within the EU have meant that reports on internal controls must be included in an annual corporate governance report.

Against this background, and after consultation with the Association of Publicly Traded Companies, the Swedish Shareholders' Association, the Institute for the Accountancy Profession in Sweden, the Association for Generally Accepted Principles in the Securities Market, the Stockholm Stock Exchange, the Confederation of Swedish Enterprise and other key actors within the field, the Board has decided to issue the following instruction on application of the Code rules on internal controls. This instruction applies to reports for 2006 and onward.

The board shall issue an annual report on how internal controls concerning financial reporting are organized. The description should follow the guidelines issued by working groups at the Confederation of Swedish Enterprise and the Institute for the Accountancy Profession in Sweden.

The report does not need to include a statement as to how well the internal control has functioned during the most recent financial year. Auditor review of the report is voluntary.

The report is to be submitted as a separate section of the company's Corporate Governance Statement. It must be stated whether or not the report has been reviewed by the company's auditors.

This means that the last clause part of the first sentence and all of the second sentence of rule 3.7.2, as well as the whole of rule 5.2.1, no longer apply, and that companies which follow this instruction do not need to explain non-compliance with these rules.

This instruction is applicable until further notice, pending a future, more comprehensive review of the Code.