EU ENFORCERS MUST MONITOR CLOSELY NEW REPORTING STANDARDS

22 October 2019

CORPORATE DISCLOSURE

IAS REGULATION

The European Securities and Markets Authority (ESMA), the EU’s securities markets regulator, today publishes the priorities that European enforcers will consider when examining the 2019 annual financial reports of listed companies. The 2019 enforcement priorities reflect the changes introduced in recent financial reporting standards and consider issues identified by national competent authorities (NCAs) through their enforcement activities in 2019.

The common enforcement priorities related to 2019 IFRS financial statements include:

·       specific issues related to IFRS 16 Leases given the need to exercise significant judgement in its application, particularly in determining the lease term and the discount rate;

·       improvement of the information provided under standards that became applicable in 2018 IFRS financial statements:

o   IFRS 9 *Financial Instruments for credit institutions*– relating to expected credit losses and significant increase in credit risk, and IFRS 15 *Revenue from Contracts with Customers for corporate issuers*, which should be of focus where revenue recognition is subject to significant assumptions and judgements; and

·       the application of IAS 12 *Income* regarding deferred tax assets arising from unused tax losses.

Steven Maijoor, ESMA Chair, said:

“The provision of good quality financial information by listed issuers in their financial statements is a key element in building investors’ confidence in European capital markets and the priorities regarding financial information reflect key changes in the IFRS standards in 2019 which impact on issuers and financial markets.

“We continue to stress the importance of providing investors with material, complete, balanced and accessible information on non-financial matters, including environmental matters and climate change. Issuers should also improve the transparency and quality of reported information in various areas, most notably on the key non-financial performance indicators used and on the non-financial disclosure frameworks adopted.

“The consistent application of reporting standards across the EU is essential to enhancing investor protection and promoting stable and orderly markets.”

ESMA also highlights the potential implications of the transition from one interest rate benchmark rate to another one on financial reporting and the importance of timely disclosure of its consequences. It encourages issuers to prepare for the timely implementation of recent IFRS 9 amendments which address hedge accounting implications, and monitor developments in the EU endorsement process which is expected to be finalised in time for the 2019 accounts.

**Key non-financial information issues and Alternative Performance Measures (APMs)**

ESMA highlights the principles of materiality and completeness of disclosures which should guide the reporting of non-financial information, including the importance of reporting information in a balanced and accessible fashion. This should include disclosures of non-financial information focusing on: environmental and climate change-related matters, key-performance indicators, the use of disclosure frameworks and supply chains. In addition, ESMA reminds issuers of the importance of providing adequate disclosures to enable users to understand the rationale for, and usefulness of, any changes to their disclosed APMs, especially regarding changes due to the implementation of IFRS 16.

**Other issues**

ESMA expects issuers to undertake all necessary steps to comply with the new European Single Reporting Format (ESEF) requirements which will begin to apply with the 2020 annual financial statements. Finally, it highlights the importance of disclosures analysing the possible impacts of the decision of the United Kingdom to leave the European Union.

**Next steps**

ESMA and European national enforcers will monitor and supervise the application of the IFRS requirements as well as any other relevant provisions outlined in the Statement, with national authorities incorporating them into their reviews and taking corrective actions where appropriate. ESMA will collect data on how EU listed entities have applied the priorities and will report on findings regarding these priorities in its Report on the 2020 enforcement activities.