

29 March 2019

## Enforcement and Regulatory Activities of European Accounting Enforcers 2018 Annual Report

On 27 March 2019, the European Securities and Markets Authority ('ESMA') published its [Annual Report on the enforcement and regulatory activities of accounting enforcers](#) within the European Union (EU) in 2018.

In 2018, ESMA further enhanced its efforts to strengthen convergence in the enforcement of financial information. In ensuring supervisory convergence in accounting enforcement amongst European enforcers, 46 emerging issues, 61 decisions and a number of roundtables and thematic reviews were submitted through the European Enforcers Coordination Sessions ('EECS'). In addition, a follow-up on the results of the Peer review of the Guidelines on Enforcement of Financial Information was carried out along with provision of guidance on deferred tax assets and discussions on some of the complexities arising from IFRS 9 application.

The action rate following the ex-post examinations carried out marginally increased from 32% in 2017 to 33% in 2018. This was due to material departures from IFRS by 296 issuers, with the main deficiencies relating to:

- financial statements presentation;
- impairment of non-financial assets; and
- accounting for financial instruments representing.

Moreover, evaluations related to the 2017 European Common Enforcement Priorities led to 28 enforcement actions being taken, specifically related to the application of;

- IFRS 3 *Business Combinations* and
- IAS 7 *Statement of Cash Flows*.

Furthermore, in 2018, enforcement extended to alternative performance measures ('APMs') and non-financial information on environmental, social and governance (ESG) matters, published by issuers according to newly enforceable requirement at a European level. The examinations carried out in 2018 cover around 31% of the total estimated number of issuers subject to the requirement to publish the non-financial statement. Keeping in mind that 2017 was the first year of application, from the 819 issuers examined in relation to non-financial requirements, enforcers followed-up with;

- 21 issuers through actions under the meaning of the Guidelines on Enforcement of Financial Information and
- 31 issuers through other measures.

With regards to APMs, in 2018, European enforcers examined around 15% of all IFRS listed issuers in Europe in line with the Guidelines on APMs. From the 136 actions taken, 71% were in relation to principles regarding APMs' reconciliations, definitions or explanation. In this regard, ESMA shall be carrying out research on the application of the guidelines in 2019.

### **Next Steps**

ESMA and the European enforcers have also identified the common enforcement priorities for 2018 IFRS financial statements with focus given to:

- IFRS 15 *Revenue from Contracts with Customers*;
- IFRS 9 *Financial Instruments*; and
- IFRS 16 *Leases*.

Moreover, while ESMA acknowledges all applicable non-financial reporting requirements, certain areas are specifically focused on for the 2018 non-financial statements:

- the disclosures relating to environmental and climate change-related matters;
- the requirements to disclose a reasoned explanation in case an issuer has not pursued a policy relating to a certain non-financial matter; and
- the importance of disclosing complete information regarding non-financial key-performance indicators.

### **Contacts**

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