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Enforcement and Regulatory Activities of European Enforcers in 2019 and the 24th Extract from the EECS's Database of Enforcement

A. Annual Report on enforcement and regulatory activities of European enforcers in 2019

On 02 April 2020, the European Securities and Markets Authority (ESMA) published its [Annual Report on enforcement and regulatory activities of European enforcers¹ in 2019](#) (hereinafter referred to as the "Report"). The Report focuses on the work carried out by ESMA and European enforcers in examining the compliance of the Issuers' financial and non-financial information provided in 2019. In addition, the Report also highlights those activities contributing to European supervisory convergence as well as ESMA's contribution to the development of a single rulebook for corporate reporting.

Enforcement of financial statements in 2019

The report indicates that, in 2019, European enforcers carried out 943 examinations of financial statements prepared under International Financial Reporting Standards (IFRS). This constitutes an examination rate of 17%, which is marginally higher than the 16% rate in 2018. The examinations in 2019 led to enforcement actions against 299 Issuers, representing an action rate of 33%. In this regard, material departures from IFRS were mostly noted in the following areas:

- Accounting for financial instruments;
- Impairment of non-financial assets;
- Presentation of financial statements; and
- Revenue recognition.

Furthermore, in their examinations, European enforcers also assessed the Issuers on the basis of ESMA's European Common Enforcement Priorities (ECEP) for 2018 year-end financial statements, including IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments*.

In 2019, European enforcers further contributed to supervisory convergence by submitting 53 emerging issuers and 48 decisions to the European Enforcers Coordination Sessions (EECS).

Enforcement of non-financial statements in 2019

¹ 'European enforcers' refers to accounting enforcers in the European Economic Area.

A total of 937 Issuers were examined in 2019 in terms of disclosures in the non-financial statements. This leads to an examination rate of 35% of those Issuers required to publish a non-financial statement, with 95 enforcement actions taken in line with ESMA's Guideline on Enforcement of Financial Information and 2 actions based on other measures. European enforcers specifically assessed disclosures on environmental matters, climate-change and non-financial key performance indicators.

Enforcement of alternative performance measures (APM) in 2019

At 712 management reports examined in 2019 on their compliance with ESMA's APM Guidelines, the examination rate was 13% of IFRS listed Issuers, out of which 15% were subject to enforcement actions.

2019 ECEP Statement

The Report also refers to the ECEP for 2019 year-end financial statements. In this regard, [based on the 22 October ESMA Public Statement](#), the Authority had published [a circular dated 25 October 2019](#) on the priorities that European enforcers will consider in conducting examinations in 2020.

Other activities related to supervisory convergence

Other activities undertaken by ESMA in the area of corporate reporting in 2019 include the following:

- Subsequent report on the use of APMs and compliance with APM Guidelines ([circular published by the Authority dated 03 March 2020](#));
- Amendments to the ESMA's Guidelines on Enforcement of Financial Information ([circular published by the Authority dated 07 February 2020](#));
- Public Statement on IAS 12 Income Taxes ([circular published by the Authority dated 18 July 2019](#)); and
- Publications in relation to the European Single Electronic Format ([various circulars published by the Authority](#));

Single rulebook

In 2019, ESMA continued its participation in the accounting standard-setting process on relevant projects of the International Accounting Standards Board (IASB) and the European Financial Reporting Advisory Group (EFRAG).

Other work undertaken by ESMA includes the technical update to the regulatory technical standards on the European Single Electronic Format (ESEF), the support to the establishment of a single rulebook in relation to disclosure of non-financial information, and work related to the Audit Regulation.

Next Steps

In ensuring the continuation of supervisory convergence in 2020, ESMA will maintain coordination with European enforcers whilst focusing on the 2019 ECEP as well as the implementation of the ESEF Regulation.

Moreover, in support of high-quality accounting standards, EMSA will also review accounting practices in relation to the following:

- IFRS 10 *Consolidated Financial Statements*;
- IFRS 11 *Joint Arrangements*; and
- IFRS 12 *Disclosure of Interest in Other Entities*.

B. 24th **Extract from the EECS's Database of Enforcement**

On 02 April 2020, ESMA, published the [24th extract from its database of enforcement decisions on financial statements](#). The extract includes eight decisions taken by European enforcers in the period between May 2018 and October 2019. The decisions included in the extract are related to the following:

- Identification of performance obligations;
- Disaggregation of revenue;
- Identification of components in lease contracts;
- Assessment of De-facto control;
- Presentation of condensed interim income statement;
- Accounting for a framework agreement;
- Liquidity risk of notes with an early redemption option; and
- Deferred tax assets related to a change in accounting policy due to first application of IFRS.

Contacts

Should you have any queries relating to the above, kindly contact the Authority on transparency@mfsa.mt.