

1 November 2020

## ESMA Public Statement - European Common Enforcement Priorities for 2020 Annual Financial Reports

### 1.0 Background

The Authority would like to draw your attention to the [Public Statement issued by the European Securities Markets Authority \("ESMA"\) on 28 October 2020](#) (hereinafter referred to as the "Public Statement").

The Public Statement details the European common enforcement priorities relating to the 2020 Annual Financial Reports ("AFRs") of listed companies. The priorities reflect the main areas that European enforcers will consider during the examination of the 2020 AFRs, specifically when monitoring and assessing the application of the applicable reporting framework as well as other relevant requirements.

The Public Statement is composed of three main sections:

- Section 1: Priorities related to IFRS Financial Statements;
- Section 2: Priorities related to Non-Financial Statements; and
- Section 3: Other considerations related to Alternative Performance Measures (APMs).

Section 1 sets out the priorities in relation to IFRS financial statements for the 2020 year-end financial statements, primarily with the objective of highlighting the need for adequate transparency on the impact of COVID-19. The IFRS enforcement priorities presented in the Public Statement are outlined as follows:

- IAS 1 *Presentation of Financial Statements* – disclosures on the going concern assumptions, disclosures on significant judgements and estimation uncertainty, and presentation of COVID-19-related items in a clear and unbiased manner;
- IAS 36 *Impairment of Assets* – transparency of the estimates and key assumptions underlying the impairment assessment, particularly in view that the adverse impact of COVID-19 could provide a strong indication of impairment indicators being triggered;
- IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures* – general considerations relating to risks arising from financial instruments, and specific considerations related to the application of IFRS 9 for credit institutions when measuring expected credit losses; and

- IFRS 16 *Leases* – specific considerations, especially in relation to the corresponding disclosures by lessees which would have applied the IASB’s amendment<sup>1</sup>, and other disclosure requirements.

Section 2 outlines the common enforcement priorities related to non-financial statements for the 2020 year-end, with ESMA reiterating the need to consider the impact of COVID-19. The priorities relating to non-financial information can be referred to as follows:

- Impact of the COVID-19 pandemic on non-financial matters – careful assessment of the impact of the pandemic on different non-financial matters, including any consequences and mitigating actions;
- Social and employee matters – disclosures on policies targeted towards employees, including remote working arrangements as well as health and safety rules;
- Business model and value creation – disclosures on the business model and value creation, including the impact of the pandemic; and
- Risk relating to climate change – explanation of climate change risks and mitigating actions put in place.

Section 3 deals with considerations on the application of the ESMA Guidelines on Alternative Performance Measures (APM), in relation to COVID-19. The guidance provided focuses on the presentation of the impact of the pandemic within the context of the APM Guidelines.

The Public Statement also refers to other issues, including the following:

- COVID-19 recommendations as issued by ESMA in March and in May in relation to [expected credit losses](#) and [half-yearly financial reports](#), respectively;
- The responsibility of listed companies’ management and supervisory bodies as well as the crucial role of the audit committee; and
- The monitoring of Brexit and the possible relative impact on listed companies.

Furthermore, ESMA reminds listed companies that for financial years starting on or after 01 January 2020, AFRs shall be prepared in compliance with the European Single Electronic Format (“ESEF”). In this regard, reference is made to a [dedicated page on the ESMA website on ESEF](#).

## 2.0 Next Steps

ESMA and European national enforcers will monitor and supervise the relevant requirements outlined in the Public Statement. ESMA will collect data from national enforcers concerning the reviews on the respective listed companies and any subsequent corrective action. In this regard, a report on the 2021 enforcement activities would be published in due course.

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<sup>1</sup> International Accounting Standards Board, Covid-19-Related Rent Concessions – Amendment to IFRS 16, May 2020

## Contacts

Should you have any queries relating to the above, kindly contact the Authority on [transparency@mfsa.mt](mailto:transparency@mfsa.mt). For any inquiries relating to ESEF, please contact [esef.malta@mfsa.mt](mailto:esef.malta@mfsa.mt).