

08 November 2021

ESMA Public Statement – European Common Enforcement Priorities for 2021 Annual Financial Reports

1.0 Background

The Authority would like to draw your attention to the [Public Statement issued by the European Securities and Markets Authority \(“ESMA”\) on 29 October 2021](#) (hereinafter referred to as the “Public Statement”).

The Public Statement, issued on an annual basis, details the European common enforcement priorities relating to the 2021 Annual Financial Reports (“AFRs”) of listed companies. The priorities reflect the main topics that European enforcers will consider during the examination of the 2021 AFRs, specifically when monitoring and assessing the application of the applicable reporting framework as well as other relevant requirements.

The Public Statement addresses four main topics:

- Impact of COVID-19;
- Climate-related matters;
- Expected credit losses (“ECL”); and
- Taxonomy-related disclosures.

In this respect, the Public Statement outlines the priorities with respect to each topic, as relevant, by way of its 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 APMs.

2.0 Overview of Priorities

Section 1 sets out the priorities in relation to IFRS financial statements for the 2021 AFRs, including the priorities listed below:

- **Impacts of the COVID-19 pandemic** – careful assessment of the longer-term impacts of COVID-19; sufficiently entity-specific disclosures on the going concern assumptions as well as on significant judgments and estimation uncertainty; careful assessment of the recovery from COVID-19, including the impact on the financial statements and corresponding disclosures; and disclosures on the applicable government support measures, by way of information on the respective nature,

extent of significance, main characteristics, and effects of termination of the said government assistance.

- **Climate-related matters** – consideration by issuers and auditors of climate risks to the extent where the said risks are material to the IFRS financial statements; reference to IASB educational material on the effects of climate-related matters on financial statements; transparency on climate-related matters, including disclosures on management judgements related to climate risks as well as major sources of estimation uncertainty; and assessment of materiality on the basis of different factors.
- **ECL disclosures of credit institutions** – enhanced transparency when material adjustments are used in the measurement of ECL; disclosures on whether a significant change in credit risk has occurred or whether a financial asset is credit impaired; explanation on the consideration of forward-looking information; transparency on changes in loss allowances, credit risk exposures and collateral; and disclosures on whether material climate-related and environmental risks are taken into account in credit risk management.

Section 2 sets out the priorities in relation to non-financial statements for the 2021 AFRs, including the priorities listed below:

- **Impacts of the COVID-19 pandemic** – transparency on how the pandemic is affecting the issuers' plans to meet sustainability targets and non-financial key performance indicators, and disclosures on any foreseen changes to the development of business in response to COVID-19.
- **Climate-related matters** – transparency on the policies, and their outcome, pursued in relation to non-financial matters; disclosures specific to climate change, including a corresponding justification statement if otherwise; transparency on the applicable risks and mitigation actions; disclosures on implementation plans to meet pre-defined targets; and transparency on the financial consequences arising from climate-related matters.
- **Disclosures relating to Article 8 of the Taxonomy Regulation** – issuers' preparedness to meet the disclosure obligations set out in Article 8 of the Taxonomy Regulation, as applicable, including an assessment of the taxonomy eligibility.

Section 3 deals with considerations related to Alternative Performance Measures ("APMs"), whereby ESMA makes relevant references to its 'Questions and Answers' document, dated 17 April 2020, related to the Guidelines on APMs.

Furthermore, the Public Statement specifically refers to the **European Single Electronic Format** ("ESEF"), whereby issuers are reminded that, starting from financial statements for financial years beginning on or after 01 January 2021, all annual financial reports shall be

prepared in compliance with ESEF. ESMA encourages preparers to refer to the [its website](#) for guidance material, and also refers to specific guidance notes from the ESEF Reporting Manual.

3.0 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 2022 enforcement activities would be published in due course.

Contacts

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