

1 November 2023

## ESMA Public Statement – European Common Enforcement Priorities for 2023 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 25 October 2023](#) (hereinafter referred to as the “Public Statement”).

The Public Statement, issued on an annual basis, details the European common enforcement priorities relating to the 2023 Annual Financial Reports (“AFRs”) of listed companies. The priorities reflect the main topics that European enforcers will consider during the examination of the 2023 AFRs, specifically when monitoring and assessing the application of the applicable reporting framework as well as other relevant requirements.

The Public Statement primarily addresses the following topics:

- Climate and other environmental matters;
- Macroeconomic environment;
- Identification and consistency of APMs; and
- ESEF block tagging.

In this respect, the Public Statement provides for certain general considerations and outlines the priorities with respect to each of the aforementioned topics, 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.

### 2.0 General Considerations

#### *Financial Reporting*

Concerning **Insurance Contracts**, the Public Statement reiterates ESMA’s focus on transparency during the first year of implementing the new IFRS 17 Insurance contracts

guidelines. This involves providing disclosures about critical decisions, estimations, and accounting policies, with a specific emphasis on the impacts during the transition period.

Furthermore, with respect to the **amendments to IAS 12: International Tax Reform Pillar Two Model Rules**, the Public Statement mentions that entities should contemplate applying a specific temporary provision for recognising and disclosing deferred taxes resulting from the adoption of the OECD's Pillar Two Model Rules.

### *Sustainability Reporting*

The Public Statement highlights the upcoming **Corporate Sustainability Reporting Directive** ("CSRD"), effective from 2024 for financial reports due for publication in 2025 for the first set of issuers within scope. The CSRD marks a broader scope compared to the Non-Financial Reporting Directive ("NFRD"), whereby the CSRD will gradually apply for additional issuers in the following reporting periods.

In abiding by the CSRD requirements, issuers shall comply with the **European Sustainability Reporting Standards** ("ESRS"). In this regard, it is highlighted in the Public Statement that issuers are expected to start working on transition projects to implement the new requirements at the earliest, especially since a significant learning curve is to be anticipated. Moreover, in the Public Statement ESMA underlines further considerations relating to sustainability reporting, including the need for strong connections between financial and sustainability statements, emphasising the necessity for rigorous data collection and controls. The Public Statement also refers to education and group-wide data processes, urging readiness for effective compliance.

Additionally, the Public Statement references the European Commission's **Transition Finance Recommendation**, strongly encouraging issuers to follow the guidance and practical examples provided therein.

## **3.0 Overview of Priorities**

**Section 1** sets out the priorities in relation to IFRS financial statements for the 2023 AFRs, including the priorities listed below:

- **Climate-related matters** – In the Public Statement, ESMA provides a reminder to issuers and auditors on the importance of considering climate-related risks, when these risks are material to the IFRS financial statements. ESMA also refers to [IASB's educational material](#) on the effects of climate-related matters on financial statements. In this regard, the Public Statement delves into the climate-related matters to be considered, some of which are included below:

- Consistency in assumptions for estimations and measurements related to climate issues throughout the AFR;
  - Disclosures on the timing and the financial impacts of planned investments and transition plans;
  - Explanations on any deviations between the assumptions used in impairment tests or provisions recognised and their climate-related commitments, plans and/or strategy, as may be applicable;
  - Relevant information on emission trading schemes and renewable energy certificates;
  - Considerations of climate-related risks and their possible impact on the impairment of non-financial assets;
  - Disclosures by financial institutions on their engagement in green financing and the significant accounting judgements used for such instruments; and
  - Provision of information on the characteristics of the Power Purchase Agreements being used.
- **Macroeconomic environment** – The heightened instability in the present economic circumstances has led to a greater degree of unpredictability. Therefore, the Public Statement emphasises particular matters, some of which are provided as follows:
    - Disclosures related to rising interest rates and their effects on (re)financing, including explanations of how changes in the macroeconomic environment influence risk exposures and outlining the various types of sensitivity analyses carried out for distinct categories of financial instruments;
    - Disclosures related to liquidity risk and how they must adhere to IFRS 7 and encompass qualitative and quantitative explanations of collateral arrangement, disclose the exposure to risk concentration both on the assets and liabilities side, and provide transparency on financing renegotiated during the year;
    - Disclosures related to hedge accounting, including comprehensive information on the efficiency of hedging relationships throughout the period and at its conclusion, along with details about discontinued hedging relationships;
    - Disclosures regarding the fair value of investment properties should encompass explanations about the determination of critical factors, including the capitalisation rate/rate of return, provision of the sensitivity analysis for observable inputs, and showcasing any significant changes from the previous period and the reasons for those changes;
    - The possibility of applying additional valuation methods to ensure that the price determined through the comparable transaction approach falls within a reasonable range of values; and
    - Disclosures related to fair values of financial instruments measured at amortised cost must *inter alia* adhere to Paragraph 25 of IFRS 7 and IFRS 13.

**Section 2** sets out the priorities in relation to non-financial statements for the 2023 AFRs, including the priorities listed below:

- **Disclosures relating to Article 8 of the Taxonomy Regulation** – In 2022, non-financial entities had to report not just the eligibility but also the alignment of their economic activities with climate change mitigation and adaptation objectives. Also following a [fact-finding exercise](#) conducted by ESMA and European enforcers, the Public Statement highlights specific matters of importance, including the below:
  - Assessment of compliance with the technical screening criteria for the multiple environmental objectives and the accompanying disclosures, as applicable;
  - Testing of the economic activities with the technical screening criteria under all the relevant objectives;
  - Improvement of disclosures relating to the substantial contribution criteria and “do-no-significant-harm” and minimum safeguards requirements;
  - Disclosures on key assumptions, areas of significant judgement, changes from previous reports, and clear entity-specific explanations about taxonomy assessments;
  - Development of clearer CapEx plans, including a clear indication of transition investments needed;
  - New EU Taxonomy criteria and related disclosures, subject to finalisation, will come into effect from 01 January 2024 (for annual reporting periods in 2023); and
  - Several free resources are available to support issuers in preparing Article 8 Taxonomy reporting, including the Frequently Asked Questions made available by the European Commission, the EU Taxonomy Compass, and ESMA’s two Q&As issued in 2022.
  
- **Disclosures of climate-related targets, actions and progress** – ESMA emphasises the importance of enhanced transparency in reporting climate-related information, particularly as the enhanced disclosure regime outlined in the CSRD is nearing implementation. Hence, the following areas were highlighted:
  - Transparency in reporting on climate-related matters, particularly in light of the forthcoming enhanced disclosure regime in the CSRD;
  - Usefulness of climate-related targets, with reference made to the disclosures on the progress made in meeting targets compared to pre-set target levels in a specific base year as well as the methodologies, assumptions, and scope of activities and entities covered by their targets;
  - Disclosures related to climate change mitigation, particularly Greenhouse Gas (“GHG”) reduction targets and actions taken to meet them; and
  - The role of targets in transitioning towards a more sustainable business model.

- **Scope 3 emissions** – In March 2023, [ESMA's report on Corporate Reporting Enforcement and Regulatory activities](#) in 2022 pointed out the need for substantial enhancements in various aspects of non-financial disclosures, particularly focusing on Scope 3 GHG emissions. In this regard, some of the aspects referred to are provided below:
  - Assessing the completeness of GHG emissions reporting;
  - Explanations on the materiality, or otherwise, of Scope 3 emissions;
  - Depending on the materiality, full transparency on the boundaries of the Scope 3 emissions calculation; and
  - Providing additional breakdowns of Scope 3 emissions by categories, main lines of business, or geographical area.

**Section 3** deals with considerations related to **Alternative Performance Measures** (“APMs”), whereby ESMA makes relevant references to its [‘Questions and Answers’ document](#), dated 01 April 2022, related to the [Guidelines on APMs](#).

Furthermore, the Public Statement specifically refers to the **European Single Electronic Format** (“ESEF”), whereby issuers are reminded that, numerical data points in the primary consolidated financial statements should be tagged using the core taxonomy element that most accurately represents the accounting concept being tagged. In addition, in the Public Statement, ESMA reminds issuers that information extracted from block tagging and in tables, should be legible, clear, and meaningful when extracted. Moreover, issuers are advised to refer to the [revised ESEF Reporting Manual](#), which offers additional guidance regarding ESMA's expectations on the mentioned topics and more.

#### 4.0 Next Steps

ESMA and European national enforcers will monitor and supervise the relevant requirements outlined in the Public Statement. Furthermore, ESMA encourages issuers, supervisory bodies, and auditors to incorporate the subjects and specific suggestions outlined in this Public Statement when drafting, overseeing, and evaluating the 2023 AFRs.

#### 5.0 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).