KPMG

cutting through complexity

Focus areas for regulators

Reinforcing the need for consistency and clarity

November 2013, Issue 2013/17

IN THE HEADLINES

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> “The regulators continue to call for transparency, specifically pointing out the areas for improvement.”

– Mark Vaessen,
KPMG global IFRS network leader

2013 enforcement priorities

The European Securities and Markets Authority (ESMA) has issued a statement[1] highlighting the areas of focus for European national regulators when reviewing IFRS financial statements for the year ending 31 December 2013.

Although the topics included in ESMA's statement are those deemed to be most relevant at a European level, regulatory bodies outside of Europe are also likely to take notice, and to pay particular attention to the same areas of focus.

Taking an entity-specific approach

The statement focuses on specific aspects of applying IFRS, relating to an entity's:

- impairment of non-financial assets;
- measurement of post-employment benefit obligations;
- fair value measurement and disclosure;
- disclosures related to significant accounting policies, judgements and estimates; and
- financial instruments.

ESMA draws attention to areas where quality could be improved, while emphasising a need for entities to focus on what is relevant to *their* financial statements. The table on the opposite page gives more detail on each of these areas.

Applying the principles

Building on its 2012 public statement, ESMA continues to emphasise the need for transparency, and the importance of appropriate and consistent application of the recognition, measurement and disclosure principles. For example, ESMA states that entities should assess the impact of any changes to their fair value measurement practice based on the requirements of the newly effective fair value measurement standard, and highlights areas where the principles may be particularly complex to apply.

Avoiding the boilerplate

Financial statement users have expressed concerns about boilerplate disclosures referring to transactions that are not relevant to the entity, or relating to immaterial items. Rather than providing all standard disclosures, entities should disclose only applicable significant accounting policies – for example, an entity would not include significant accounting policies on biological assets in its financial statements if it does not have biological assets.

Entities should focus on the quality and completeness of disclosures, using entity-specific information rather than, for example, quoting extensively from the standard. For instance, ESMA stresses the importance of providing disclosures for non-financial assets at the appropriate disaggregated level – specific to an entity's cash generating unit (CGU) or a group of CGUs – to make them more informative for users of the financial statements.

Next steps

Think about the possible accounting impacts for your entity, and start planning your specific disclosures now, to make sure that you apply the relevant accounting principles consistently, and that your financial statements meet the expected levels of transparency.

For more help with these areas, speak to your usual KPMG contact or go to our publications Guide to financial statements: Disclosure checklist and Insights into IFRS.

1 European common enforcement priorities for 2013 financial statements

Area of focus	Selected entity-specific accounting and disclosure considerations
Impairment of non-financial assets	• The use of realistic cash flow projections supported by external sources of information and/or actual past outcomes. • Disaggregated disclosure of key assumptions and judgements using qualitative and quantitative information, by CGU or group of CGUs. • Appropriate disclosure of sensitivity analysis for material goodwill and other intangible assets with indefinite useful lives.
Measurement of post-employment benefit obligations	• Consistent approach in determining the discount rate used to measure post-employment benefit obligations. • Assessment of the bond market at the currency level when there is no high-quality corporate bond market at the country level. • Disclosure of significant judgements used to determine the present value of the defined benefit obligation.
Fair value measurement and disclosure[2]	• Consideration of the appropriate factors when measuring fair value (including disclosures) – e.g. counterparty credit risk and own credit risk adjustments. • Application of valuation techniques consistent with the characteristics of the asset or liability that market participants would take into account in a transaction for the asset or liability. • Providing the level of the fair value hierarchy within which fair value measurements are categorised, including complete and clear disclosures about assets and liabilities for which fair value is classified within Level 3.
Disclosures related to significant accounting policies, judgements and estimates	• Use of entity-specific information rather than standard language to prepare high-quality disclosures. • Disclosure of significant accounting policies in order of materiality and relevance. • Appropriate disclosure of significant judgements, sources of estimation uncertainties and sensitivity analysis.
Topics related to financial instruments	• Disclosures that reflect the nature and extent of risks arising from financial instruments and an analysis of an entity's concentration of exposure to relevant risks. • Disclosure of quantitative and qualitative information on forbearance. • Liquidity risk disclosures that correspond to the entity's risk profile.

“Companies should focus on what really matters to their financial statements. Ticking the boxes may not be enough.”

– Mark Vaessen,
KPMG global IFRS network leader

2 Information about the impact of changes on fair value measurements based on the new requirements of IFRS 13 *Fair Value Measurement* can be found in our publications *First Impressions – Fair Value Measurement* and *Fair Value Measurement – Questions and Answers* (available from 15 November 2013). Go to www.kpmg.com/ifrs.

About ESMA

ESMA is an independent EU authority that contributes to safeguarding the stability of the EU's financial system by ensuring the integrity, transparency, efficiency and orderly functioning of securities markets, as well as enhancing investor protection. More information about ESMA can be found at www.esma.europa.eu.

Publication name: *In the Headlines – Focus areas for regulators*

Publication number: Issue 2013/17

Publication date: November 2013