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ESMA enforcement priorities for 2017

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European regulator highlights priorities for 2017 IFRS financial statements

Highlights

- Priorities for national securities regulators
- Main focus is on the impact of implementing the new standards
- Other key areas of focus relate to business combinations and the cash flow statement
- Other relevant enforcement priorities

Priorities for national regulators

The European regulator, ESMA[1], has issued a statement highlighting the common areas that European national securities regulators will be focusing on when reviewing listed companies' 2017 financial statements to promote the consistent application of IFRS. Not surprisingly, disclosures of the impact of implementing the new standards are one of its three key priorities.

Although the topics included in the statement are those deemed to be most relevant at a European level, regulatory bodies outside Europe are also likely to pay particular attention to many of the same topics. These topics are not exhaustive, however, and national regulators may have additional areas of focus.

"In a matter of weeks, the new financial instruments and revenue standards will become effective. ESMA expects issuers to provide relevant entity-specific qualitative and quantitative information about the impact of these new standards."

Chris Spall,
Partner,
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Main focus on impact of new standards

For 2017 IFRS financial statements, ESMA expects high-quality, entity-specific, qualitative and quantitative disclosures on the impacts of the new standards – IFRS 9 *Financial Instruments*, IFRS 15 *Revenue From Contracts with Customers* and IFRS 16 *Leases*.

During 2016, ESMA outlined its expectations for disclosures on the implementation of IFRSs 9 and 15[2]. ESMA's recent fact-finding exercise found mostly *qualitative* disclosures in 2016 annual financial statements and 2017 interim financial statements.

Given the new standards will already be effective when 2017 annuals are published, ESMA is expecting companies to have substantially completed their implementation analyses and is therefore expecting more *quantitative* disclosures in 2017 annual financial statements.

1. European Securities and Markets Authority.
2. Issues for consideration in implementing IFRS 9 *Financial Instruments* and Issues for consideration in implementing IFRS 15 *Revenue from Contracts with Customers*

Key areas of focus

In addition to disclosures on the impact of the new standards, ESMA has identified specific issues relating to IFRS 3 *Business Combinations* and IAS 7 *Statement of Cash Flows* as key focus areas.

Topics	Specific points to consider
Disclosures on the impact of new standards	– Entity-specific disclosures including: - imminent accounting policies, transition approach and use of practical expedients; and - expected impacts, including quantitative information which should now be known or reasonably estimable – Detailed recommendations for pre-implementation disclosures, and for IFRS 9 impacts including specific considerations for different types of entities (see the annex to ESMA's statement)
IFRS 3 recognition, measurement and disclosure issues	– Specific issues in applying IFRS 3[3] related to: - intangible assets (including purchase price allocation); - adjustments during the measurement period; - bargain purchases; - mandatory tender offers; - business combinations under common control; - contingent payments; and - disclosures on fair value
IAS 7 disclosure issues	– Reconciliation of liabilities arising from financing activities (new disclosure requirement in 2017) – Disclosure of cash and cash equivalents: - entity-specific accounting policies (including bank overdrafts and cash pooling facilities); and - restrictions on use of cash and cash equivalents

In addition, ESMA is reminding issuers preparing their 2017 annual reports of the need for a fair, balanced and comprehensive analysis of the development and performance of the business in their management report.

Also, with issuers applying the requirements of the amended EU Accounting Directive (as transposed into national law) for the first time, ESMA is:

– reminding them of their obligation to disclose non-financial and diversity information, if applicable; and

– recommending they use the methodology found in the European Commission's guidelines on non-financial reporting.

Other relevant enforcement priorities

ESMA also continues to focus on Brexit-related disclosures. The regulator expects disclosure in the financial statements or in the management report of the risks associated with Brexit by issuers potentially affected, including expected impacts and uncertainties, on their business activities – e.g. uncertainties about income taxes in the financial statements. Visit KPMG's Brexit homepage to find out more about the impacts on your business.

Listed companies and their auditors should continue to pay attention to the other enforcement priorities previously published by ESMA, which remain relevant. In particular, the transparent presentation of financial performance, both in financial statements – following the requirements set out in the amendments to IAS 1 *Presentation of Financial Statements* – and in other sections of the annual report where ESMA's guidelines on alternative performance measures apply[4].

3. See ESMA's 2014 report on applying IFRS 3
4. See also ESMA's Q&A on alternative performance measures guidelines