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ESMA enforcement priorities for 2018

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European regulator highlights priorities for 2018 IFRS financial statements

Highlights

– Priorities for national securities regulators
– Main focus is on the new standards – IFRSs 9, 15 and 16
– Other key areas of focus – Non-financial information and APMs
– Other relevant priorities

Priorities for national securities 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' 2018 IFRS financial statements. Their aim is to promote the consistent application of IFRS and other reporting requirements.

Given the scale of accounting change, application of the new standards is its key priority with a focus on transparent disclosure of information relevant to users' understanding of the entity's financial performance and financial position.

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.

"Now that the new financial instruments and revenue standards are effective – and with IFRS 16 due soon – ESMA expects issuers to step up to the challenge of delivering the required level of detail and transparency in their 2018 disclosures."

Chris Spall,
Partner,
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Main focus is on the new standards – IFRSs 9, 15 and 16

ESMA expects to see a sufficient level of transparency on how the new standards on financial instruments and revenue – IFRSs 9 and 15 – have been applied and implemented, including:

– the entity-specific accounting policies; and
– transition impact with explanations over material impacts on financial position and performance.

For IFRS 16 *Leases* – effective from 1 January 2019 – ESMA expects companies to have substantially completed their implementation analysis and is therefore expecting entity-specific qualitative and quantitative disclosures in 2018 annual financial statements.

1. European Securities and Markets Authority

Topic	Specific points to consider
Applying IFRS 9	– Disclosing the nature and effect of initially applying IFRS 9 per the specific transitional disclosure requirements of IFRS 7 *Financial instruments: Disclosures*, including: - reclassifications of financial assets and liabilities; and - reconciliations of the closing impairment allowances under IAS 39 *Financial Instruments: Recognition and Measurement* to the opening loss allowances under IFRS 9 – New 'business as usual' disclosures in IFRS 7 – including new or expanded disclosures about credit risk and hedge accounting. – Presentation of interest revenue.
Applying IFRS 9 to credit institutions and insurance undertakings/ conglomerates	– For credit institutions: - transparent disclosure of the initial impact of IFRS 9 with a detailed explanation of the nature and drivers of the impact on financial position and performance and equity, including the impact on prudential ratios; - disclosure of entity-specific inputs and assumptions used: – in determining ECL considering both IFRS 7 and IAS 1 *Presentation of Financial Statements* disclosure requirements on judgements; and sources of estimation uncertainty (e.g. sensitivity analysis) – criteria for assessing a significant increase in credit risk (including any necessary portfolio-level assessment); - using forward-looking information (including macro-economic) in the ECL models; - detailed loss allowance reconciliations; - measurement of credit-impaired financial assets – unbiased and realistic estimates (including sale scenarios); and - applying SPPI criteria on an instrument-by-instrument basis. – For insurance undertakings / conglomerates, disclosure requirements for preparers applying the temporary exemption option.
Applying IFRS 15	– Identification and satisfaction of performance obligation when assessing revenue recognition patterns. – Assessing whether an entity acts as a principal versus an agent. – Maximizing the use of observable inputs when determining transaction price and how this is allocated to multiple performance obligations. – Presentation of contract assets and contract liabilities upon transition. – Whether disaggregation of revenue is sufficient to enable users to understand the main drivers in revenue. – Whether sufficient information has been disclosed, including more granularity on significant judgements.
Disclosures on the impacts of implementing IFRS 16	– Entity-specific disclosures including: - imminent changes in accounting policies, transition approach and use of practical expedients; - expected impacts, including quantitative information, which ESMA expects to be known or reasonably estimable; and - explaining the differences between the current IAS 17 *Leases* disclosure of minimum lease payments for operating leases and IFRS 16.

For information and resources on the new standards, visit our **revenue**, **financial instruments** and **leases** topic pages.

Also available are the 2018 editions of our **Guides to annual financial statements** – incorporating **Illustrative disclosures** and a companion **Disclosure checklist**. With **Insights into IFRS** and our newly effective standards **web tool**, these form your complete guide to the year end.

Other key areas of focus – Non-financial information and APMs

ESMA is also reminding preparers of the need for increased transparency in other parts of the annual report to improve clarity, consistency and comparability of information.

This includes disclosures over non-financial information[2], including:

- environmental matters (including climate change);
- social and employee matters;
- respect for human rights; and
- anti-corruption and bribery matters.

If preparers decide not to develop or pursue policies on those matters, they are required to document their rationale and disclose in the annual report the principal risks related to those matters. Preparers are also required to disclose non-financial KPIs and link these to the relevant non-financial information.

In terms of APMs, preparers are reminded of the requirements in **ESMA's Guidelines on Alternative Performance Measures** and **ESMA's Q&A** document aimed at transparent and unbiased presentation of such measures. For more information, please refer to our article **Communicating effectively through non-GAAP information**.

Other relevant priorities

- ESMA continues to focus on Brexit-related disclosures. Visit KPMG's **Brexit homepage** to find out more about the impacts on your business.
- Also highlighted are the financial reporting consequences of Argentina being classified as a hyperinflationary economy under IFRS as of 1 July 2018.
- Listed companies and their auditors should continue to pay attention to the other enforcement priorities **previously published** by ESMA, which remain relevant.

2. Per the requirements in Article 19a of the Accounting Directive