Report

Enforcement and Regulatory Activities of European Accounting Enforcers in 2018

27 March 2019 | ESMA32-63-672

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Abbreviations and acronyms used in this report

APMs	Alternative Performance Measures
CWG	Consultative Working Group
CEAOB	Committee of European Auditing Oversight Bodies
DP	Discussion Paper
DTAs	Deferred Tax Assets
EBA	European Banking Authority
EC	European Commission
ECEP	European Common Enforcement Priorities
ECL	Expected Credit Loss
ED	Exposure Draft
EEA	European Economic Area
EECS	European Enforcers Coordination Sessions
EFRAG	European Financial Reporting Advisory Group
EFRAG TEG	European Financial Reporting Advisory Group Technical Expert Group
EIOPA	European Insurance and Occupational Pensions Authority
ESEF	European Single Electronic Format
ESMA	European Securities and Markets Authority
EU	European Union
FICE	Financial Instruments with Characteristics of Equity
GAAP	Generally Accepted Accounting Principles
GLEFI	Guidelines on the Enforcement of Financial Information
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standard
IFRS IC	International Financial Reporting Standards Interpretation Committee
IOSCO	International Organization of Securities Commissions
IPO	Initial Public Offering
iXBRL	Inline Extensible Business Reporting Language
KPI	Key Performance Indicators
MMF	Money Market Fund
NCA	National Competent Authority
NCI	Non-Controlling Interest
NFI	Non-Financial Information
NFS	Non-Financial Statement
PPA	Purchase Price Allocation
P&L	Profit and Loss
Q&A	Questions and Answers
RTS	Regulatory Technical Standard
SICR	Significant Increase in Credit Risk
SPPI	Solely Payments of Principal and Interest
US SEC	United States Securities and Exchange Commission
XBRL	Extensible Business Reporting Language
XHTML	Extensible Hypertext Mark-up Language

Audit Regulation	Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC.
Accounting Directive	Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (as amended)
ESMA Regulation	Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC.
IAS Regulation	Regulation (EC) No 1606/2002 of 19 July 2002 of the European Parliament and of the Council on the application of International Accounting Standards
Non-Financial Information Directive	Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups
Transparency Directive	Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market.[1]

[1] As last amended by Directive 2013/50/EU of the European Parliament and of the Council of 22 October 2013.

Executive Summary

This report provides an overview of the activities of the European Securities and Markets Authority (ESMA) and the accounting enforcers in the European Economic Area (EEA), hereafter 'European enforcers', when examining compliance of financial information provided by issuers in 2018. It also provides an overview of the main activities performed at European level, quantitative information on enforcement activities in Europe as well as ESMA's contribution to the development of the single rulebook in the area of corporate reporting.

Supervisory Convergence

Enforcement of financial information in 2018

As in the past years, in order to ensure supervisory convergence in the area of accounting enforcement, European enforcers submitted a high number of issues to the European Enforcers Coordination Sessions (EECS) – 46 emerging issues, 61 decisions, and a number of roundtables and thematic reviews.

In 2018, ESMA and European enforcers have expanded their enforcement activities to respond to the demands stemming from new requirements such as those on non-financial information and alternative performance measures. Furthermore, examinations of financial information deal with increasingly more complex and resource intensive issues. As a result, in 2018 the examination rate of all IFRS issuers with securities listed on regulated markets decreased compared to 2017 (from 19% to 16%).

Ex-post examinations resulted in actions being taken towards 296 issuers in order to address material departures from IFRS, which represents an action rate of 33%. This is broadly stable compared to 2017, when the action rate was at 32%. The main deficiencies were identified, as in past years, in the areas of financial statements presentation, impairment of non-financial assets and accounting for financial instruments.

In 2018, ESMA and European enforcers evaluated for a sample of 260 issuers the level of compliance with IFRS in the areas identified as common enforcement priorities for the 2017 annual financial statements. This assessment resulted in 28 enforcement actions being taken, related to the enforcement priorities assessed, in particular related to application of IFRS 3 *Business Combinations* and IAS 7 *Statement of Cash Flows*.

Enforcement of non-financial information and APMs in 2018

In 2018 European enforcers have examined 819 issuers for the purpose of assessing the non-financial disclosures prepared in accordance with Articles 19a and 29a of the Accounting Directive, thus covering approximately 31% of the total estimated number of issuers subject to the requirement to publish the non-financial statement. Enforcers followed-up with issuers on these examinations either through actions under the meaning of the Guidelines on Enforcement of Financial Information (20 issuers) or through other measures seeking clarifications (31 issuers), in light of the fact that 2017 was the first year of application of these requirements.

With respect to APMs, in 2018 European enforcers assessed the compliance of issuers with the requirements set out in the Guidelines on APMs through examination of 746 management reports, representing around 15% of all IFRS listed issuers in Europe. European enforcers took 136 actions in these regards, representing an action rate of 18%. Seventy one percent of these actions referred to the principles regarding APMs' reconciliations, definitions or explanations. In 2019, ESMA will follow up on these results by conducting a study on the application of the guidelines in Europe.

2018 European Common Enforcement Priorities

As in previous years, ESMA together with European enforcers identified, and will include in its supervisory practices, a set of common enforcement priorities for European issuers' 2018 IFRS financial statements. The 2018 priorities focus on (1) specific issues related to the application of IFRS 15 *Revenue from Contracts with Customers*; (2) specific issues related to the application of IFRS 9 *Financial Instruments*; and (3) disclosure of the expected impact of implementation of IFRS 16 *Leases*. The 2018 ECEP Statement also includes a section addressing non-financial statements, whereby ESMA, notwithstanding the relevance of all the applicable requirements, identified the following areas of particular focus for the 2018 non-financial statements: the disclosures relating to environmental and climate change-related matters, the requirements to disclose a reasoned explanation in case an issuer has not pursued a policy relating to a certain non-financial matter and the importance of disclosing complete information regarding non-financial key-performance indicators

Other activities of supervisory convergence

In addition to its regular activities, in 2018 ESMA together with European enforcers initiated a number of activities with the aim to further strengthen supervisory convergence in relation to the enforcement of financial information. These include, inter alia, following up on the results of the Peer review of the Guidelines on Enforcement of Financial Information, developing internal guidance for enforcers on a common approach on supervising deferred tax assets stemming from tax losses carried forward, and setting up of a new temporary task force focusing on discussing complex IFRS 9 application issues encountered in financial institutions.

Single Rulebook

ESMA actively participated in the accounting standards-setting process by providing European enforcers' positions on all major new standards issued by the International Accounting Standards Board (IASB) as well as by contributing to the discussions in the EFRAG Board and the Technical Expert Group (EFRAG TEG).

Among other things, ESMA contributed to the consultation on EFRAG's DP Equity Instruments – Impairment and Recycling in order to respond to the request for technical advice from the European Commission (EC) on the accounting treatment of equity instruments from a long term perspective, arguing, as in the past, that IFRS 9 strikes the appropriate trade-off between reporting the underlying economic volatility of financial instruments and transparency of economic performance. Furthermore, in response to the EC Consultation seeking feedback to evaluate the Fitness of the EU framework for public reporting by companies, ESMA reiterated its support for the existing endorsement process that remains appropriate and can accommodate further developments related to other EU policy objectives such as sustainability and long-term investments.

Based on its mandate under the revised Transparency Directive, ESMA followed-up to the publication of its draft Regulatory Technical Standard (RTS) on the European Single Electronic Format (ESEF) to the EC for endorsement in December 2017 through a series of initiatives to facilitate implementation of electronic reporting in the EU, including most notably an extensive outreach to inform all relevant market participants of the upcoming electronic reporting requirements. The EC adopted on 17 December 2018 the draft RTS on ESEF, thereby submitting it to Council and Parliament for an objection period following which the RTS on ESEF will become applicable upon publication in the Official Journal.

Work programme for 2019

ESMA's Annual Work Programme 2019 covers, as in previous years, among other topics, the activities of accounting enforcers. In addition to the regular activities, especially related to the coordination of the European enforcers' work to ensure compliance of issuers' financial statements with IFRS, ESMA envisages to strengthen coordination with auditor supervisory bodies, to continue its supervisory convergence work in the area of narrative reporting and in preparation for electronic reporting (ESEF) and to closely monitor and contribute to developments in the area of sustainability and non-financial reporting.

Finally, ESMA plans to continue to actively contribute to the development of high-quality accounting standards through providing enforcers' views on endorsement advice and on the consultations from the IASB on major proposed modifications to the standards.

2 Introduction

1. This report provides an overview of the activities related to the supervision and enforcement of financial and non-financial information carried out during 2018 at European and national levels in the EU and the EEA.

2. Furthermore, it also addresses ESMA's contribution to the development of the single rulebook in corporate reporting, such as the process of the European system of endorsement of IFRS and the interaction with the IASB, as well as other relevant activities in the corporate reporting area.

3. The report is addressed to all stakeholders, including European issuers, investors, auditors, other regulators and the general public. It focuses primarily on enforcement and regulatory activities related to issuers listed on regulated markets, with a focus on issuers preparing IFRS financial statements. It does not therefore address all enforcement and regulatory activities conducted by European enforcers.[2]

3 Supervisory convergence activities

4. The promotion of harmonisation of enforcement activities related to IFRS has been an important area of activity for the European regulators. The activities performed by ESMA and the European enforcers in the area of supervisory convergence in 2018 are described in detail in this chapter and are followed by an overview of the next steps that ESMA envisages in the area of corporate reporting in accordance with ESMA's Strategic Orientation 2016-2020. Appendix I provides a description of the main features of the European enforcement system on financial reporting with specific references and explanations to the Guidelines on Enforcement of Financial Information (thereafter EFI Guidelines).

5. An important activity in fostering supervisory convergence in Europe is establishing common enforcement priorities and communicating these to stakeholders ahead of the finalisation of the annual financial reports. ESMA has published European Common Enforcement Priorities (ECEP) every year since 2012. In ESMA's experience, announcing those priorities before the finalisation of annual financial reports helps to prevent misstatements and contributes to increasing the consistency and quality of corporate reporting in Europe.

3.1. Assessment of compliance with 2017 Enforcement Priorities

6. European enforcers considered the Public Statement on the 2017 European Common Enforcement Priorities[3] (hereafter, the ECEP statement) during the examination process of 2017 IFRS annual financial statements. In order to assess how they had been addressed, ESMA and accounting enforcers analysed a sample of 260 issuers

[2] Please refer to Appendix 2 for the full list of European enforcers

[3] ESMA32-63-340, Public Statement – *European common enforcement priorities for 2017 financial Statements*, 27 October 2017

from 28 EEA countries selected for examination by European enforcers (in 2017 the sample was of 204). When selecting the issuers, European enforcers did not use a random sampling method but selected issuers for which the enforcement priorities were of particular importance. Therefore, the results from this assessment should not be extrapolated to the general population of issuers.

7. The priorities included in the ECEP 2017 statement included in particular (i) Disclosure of the expected impact of implementation of major new standards in the period of their initial application (i.e. IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*), (ii) specific recognition, measurement and disclosure issues of IFRS 3 *Business Combinations*, and (iii) specific requirements of IAS 7 *Statement of Cash Flows*.

ECEP relating to IFRS consolidated financial statements

3.1.2. Disclosure of the expected impact of implementation of major new standards in the period of their initial application

8. ESMA included in its 2017 ECEP statement, and European enforcers assessed, whether issuers have provided sufficient and good quality disclosures in relation to expected impact of implementation of the two major new standards in the period of their initial application, IFRS 9 and IFRS 15.

9. As shown in the figures in each of the following sections, the sample assessed the quality of disclosures relating to the expected impact of the new major standards during the initial application and consisted of issuers from diverse sectors and with a range of market capitalisations. The category 'Other' includes multiple sectors not covered in the other categories.

IFRS 9 *Financial Instruments*

10. European enforcers reviewed compliance with the requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, related to the expected impact IFRS 9 and report separately for three groups of issuers: (a) Non-financial corporations (Corporates), (b) Credit institutions and (c) Insurance undertakings and financial conglomerates.

(a) Corporates

11. European enforcers reviewed compliance with regards to the expected impact of implementation of IFRS 9 for 54 corporate issuers. The sectorial distribution and the market capitalisation of the issuers of the sample is illustrated in the charts in the next page.

12. ESMA welcomes the fact that over 60% of issuers in the sample provided entity-specific information on the expected impact of IFRS 9 on their financial statements. However, 17% disclosed only boilerplate or non-specific information. ESMA reminds issuers that

entity-specific quantitative and qualitative disclosures about the application of the new standards are needed to enable users to assess the nature and extent of the expected impact of the implementation of IFRS 9 in accordance with Paragraph 30 of IAS 8.

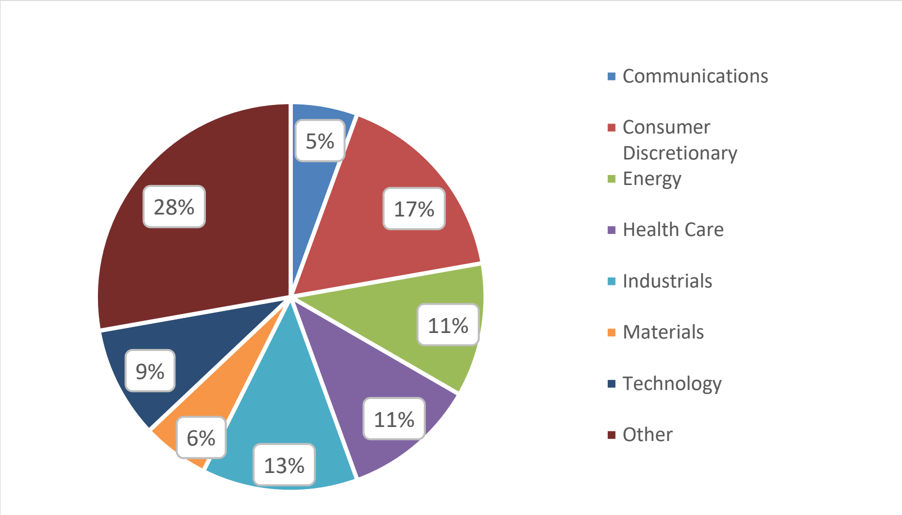

Figure 1: Sample of issuers examined for IFRS 9 – Corporates per sector of activity

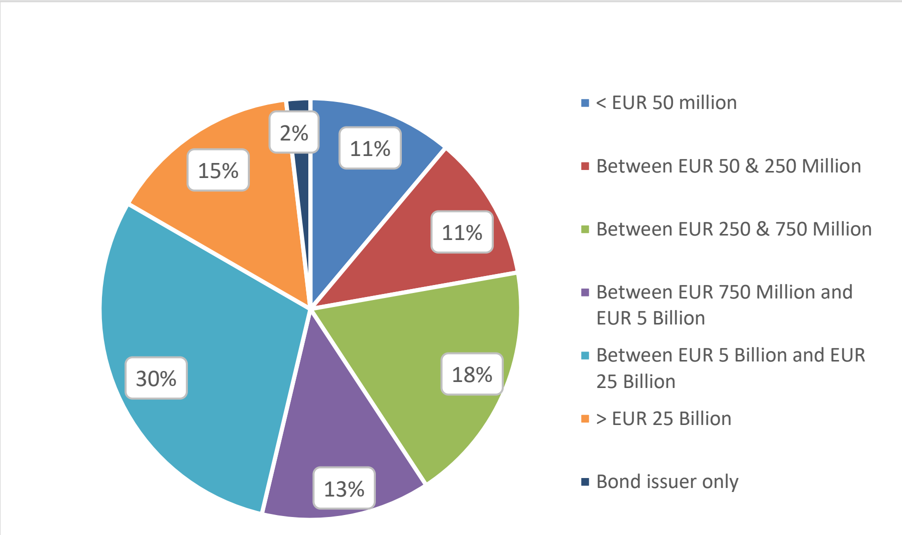

Figure 2: Market capitalisation of issuers examined at 31/12/2017 in EUR (mil) for expected impact of IFRS 9 – Corporates

13. Nevertheless, a majority of issuers who did provide entity-specific disclosures, provided both in the qualitative and quantitative information disclosed a level of detail commensurate to the nature of exposure to the financial instruments, including entity-specific information disaggregated by appropriate risk drivers/level of detail.

14. In particular, more than 80% of the sample that provided entity-specific disclosures disclosed the disaggregated quantitative impact of application of IFRS 9 sufficiently. Furthermore, around three quarters disclosed the accounting policy choices expected to be applied, including those relating to the transition approach and the use of practical expedients as well as the amount and nature of the expected impacts compared to

previously recognised amounts. The remaining quarter of the sample provided only partial disclosures.

15. ESMA notes that around 40% of the sample disclosed that they planned to adopt the new hedge accounting model, whilst 15% disclosed that they will retain IAS 39 *Financial Instruments: Recognition and Measurement h*edge accounting model.

Enforcement actions

16. Only one enforcement action was taken on the area of specific considerations related to expected impact of the implementation of IFRS 9 for corporates, whilst three cases are still ongoing.

(b) Credit Institutions

17. European enforcers reviewed compliance in the area of expected impact of implementation of IFRS 9 for 35 credit institutions. The market capitalisation of the banks analysed is presented in the chart below.

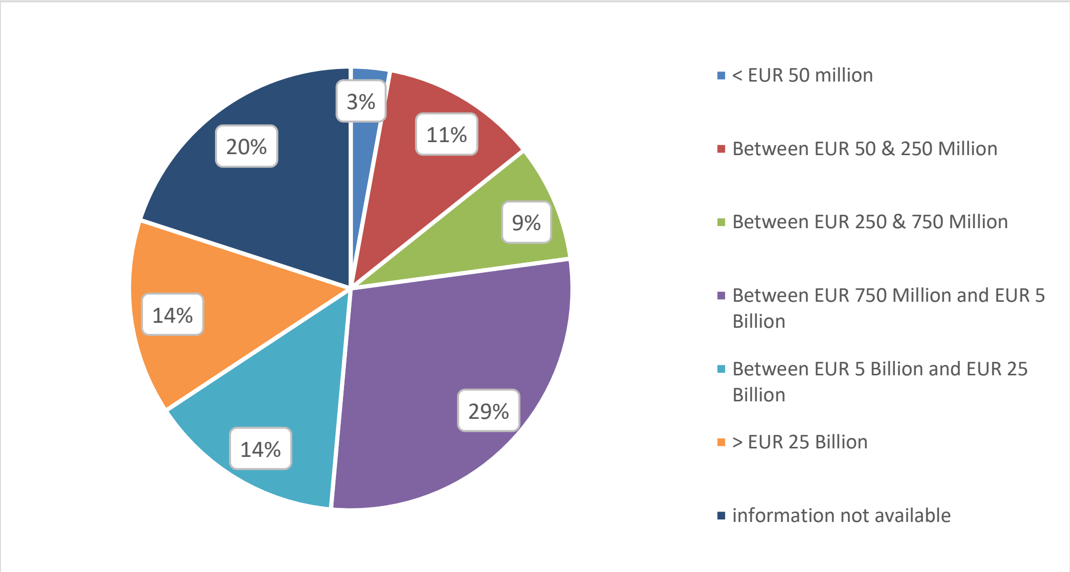

Figure 3: Market capitalisation of issuers examined at 31/12/2017 in EUR (mil) for expected impact of IFRS 9 – banks

18. ESMA welcomes the fact that all entities reviewed provided entity-specific information on the expected impact of IFRS 9 on their financial statements, and all but one disclosed the disaggregated information on accounting policy choices expected to be applied, the transition accounting policy choices and the use of practical expedients. However, ESMA notes that around one quarter of credit institutions in the sample did not disclose the changes in the amount and nature of the expected impacts compared to previously disclosed amounts.

19. Almost 70% of the credit institutions reviewed disclosed the disaggregated quantitative impact of application of IFRS 9. Twenty five percent disclosed only aggregated information whilst the remaining issuers provided some disaggregation. ESMA

welcomes the high level of compliance with the requirements of Paragraph 30 of IAS 8 requiring issuers to provide entity-specific quantitative and qualitative disclosures about the application of the new standard.

20. Almost three quarters of the sample provided disclosures on applying judgment in the key areas of the standard, such as defining the business model, the assessment of the significant increase in credit risk, the definition of default, and the incorporation of forward-looking information in the expected credit risk model. On the other hand, less than a half of the credit institutions reviewed described judgments related to the determination of which sales activities are expected to be consistent with their hold to collect business models and the implementation of the benchmark test for features in a financial instrument that modify the time value of money within the SPPI (Solely Payment of Principal and Interest) test.

21. ESMA notes that only one of the credit institutions reviewed decided to early adopt IFRS 9 in full, whilst four early adopted only the own credit risk provisions. In addition, while four credit institutions disclosed that amendments to IFRS 9 related to prepayment features with negative compensation are expected to result in material impacts, none of them provided full explanation of the expected impact. Finally, only two issuers plan to adopt the new hedge accounting model in full, whilst 27 disclose that IAS 39 hedge accounting model will be retained.

22. ESMA notes that two thirds of the sample disclosed the expected impact of the implementation of the IFRS 9 on the capital ratio in the financial statements. In total over half of the issuers in the sample disclosed in the financial statements the impact on the fully loaded capital ratio. While approximately one quarter of the sample provided both the impact on the fully loaded capital ratio and on the capital ratio using the transitional rules, five credit institutions in the sample disclosed only the impact using the transitional rules. At the same time, while few remaining credit institutions disclosed that the information on the expected impact on capital is not available, ESMA notes that almost one quarter of the sample did not disclose in the financial statement neither the expected impact on the capital ratios nor the information whether transitional rules on capital are provided.[4] ESMA notes that out of 14 issuers in the sample that disclosed that they intend to apply transition relief for regulatory capital, all but one disclosed the corresponding expected impact on the capital ratio.

Enforcement actions

23. No action was yet taken on the area of specific considerations related to the expected impact of the implementation of IFRS 9 for credit institutions, but two cases are currently ongoing.

(c) Insurance and financial conglomerates

24. European enforcers also reviewed compliance in the area of specific considerations

[4] ESMA notes that this information might have been provided outside of the financial statement but encourages issuers to present information related to the management of capital in the context of disclosures of Paragraph 134 of IAS 1 in the financial statements.

related to the expected impact of application of IFRS 9 for 20 insurance companies or financial conglomerates, whose market capitalisation is shown in the chart below:

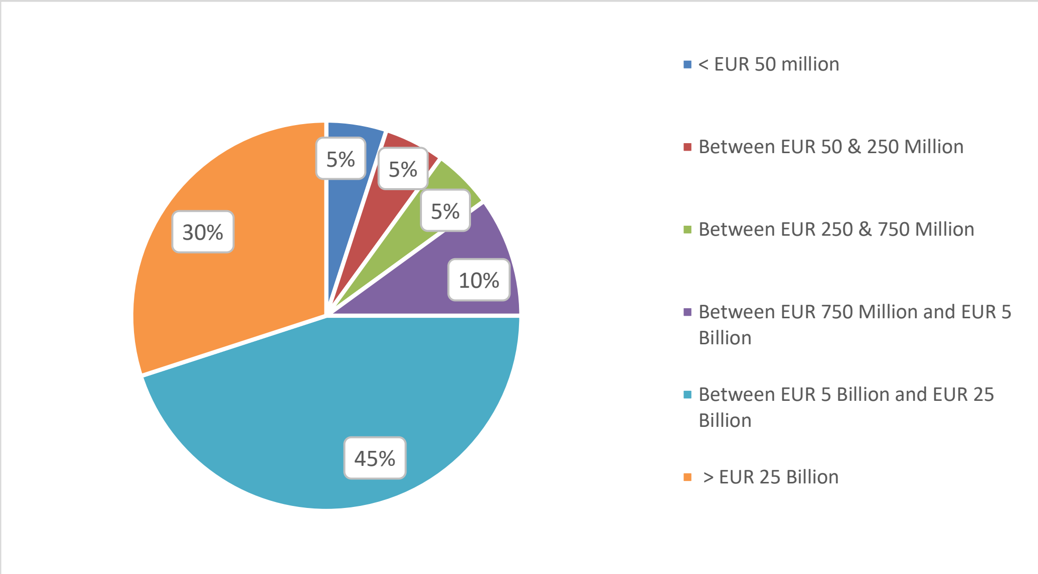

Figure 4: Market capitalisation of issuers examined at 31/12/2017 in EUR (mil) for expected impact of IFRS 9 – insurance and conglomerates

25. Of these 20 issuers in the sample, four issuers (one insurance companies and three financial conglomerates) decided to apply IFRS 9 as of 1 January 2018 and provided full disclosures of entity-specific impact, including accounting policy expected to be applied, transition accounting policy choices, the nature of the expected impacts compared to previously disclosed amounts, and the quantitative impacts from classification and measurement, impairment and hedge accounting including the implications of the main drivers of the most significant impacts. Only one issuer (financial conglomerate) reviewed stated that it is applying IFRS 9 and has decided to use the overlay approach for insurance-related assets.

26. ESMA recalls that the IASB allowed the deferral of application of IFRS 9 for reporting entities that are predominantly insurance companies, subject to meeting a specific test. Eleven of the insurance companies reviewed disclosed that they will apply the option, therefore applying IAS 39 rather than IFRS 9 until 2021. ESMA notes that only slightly more than half of them provided sufficient information on assumptions and judgments made when determining that they fulfil the requirements of Paragraph 20D of IFRS 4 *Insurance Contracts* and thus qualify for the use of the deferral, and only one provided entity-specific disclosures providing additional disclosures that allowed to asses fulfilment of the requirements of Paragraph 39E and 39G of IFRS 4 already in the 2017 financial statements. Others provided no information or only boilerplate disclosure. ESMA urges issuers to provide sufficient level of transparency with regards to the deferral of IFRS 9 to the market.

27. European co-legislators allowed the use of the deferral option for legal entities in the

insurance sector of a financial conglomerate.[5] Out of the seven financial conglomerates in the sample, four decided to benefit from this option (while other three applied IFRS 9 in full). While all of these financial conglomerates provided sufficient transparency on the expected impact of application of IFRS 9 with regards to group entities outside of the insurance sector not eligible for the deferral option and application of IFRS 9, information on the accounting consequences for the insurance business was relatively scarce. Of the four financial conglomerates disclosing the use of the deferral option, only half fully disclosed how the conditions of this option apply to them or the amount of financial assets for which application of IFRS 9 is deferred. Albeit the small sample size might not be representative of the entire population, ESMA urges financial conglomerates benefiting from the EU deferral option (the so called 'EU-top up') to provide comprehensive disclosures, including the amount of financial assets for which application of IFRS 9 is deferred and the nature and extent of significant restrictions on the use of the group's assets subject to the ban on transferring financial instruments.[6]

Enforcement actions

28. One enforcement action was taken on the area of specific considerations related to expected impact of application of IFRS 9 for insurance and financial conglomerates.

IFRS 15 *Revenue from Contracts with Customers*

29. European enforcers reviewed compliance with IFRS 15 for 97 issuers, whose sector of activity and market capitalisation are represented below.

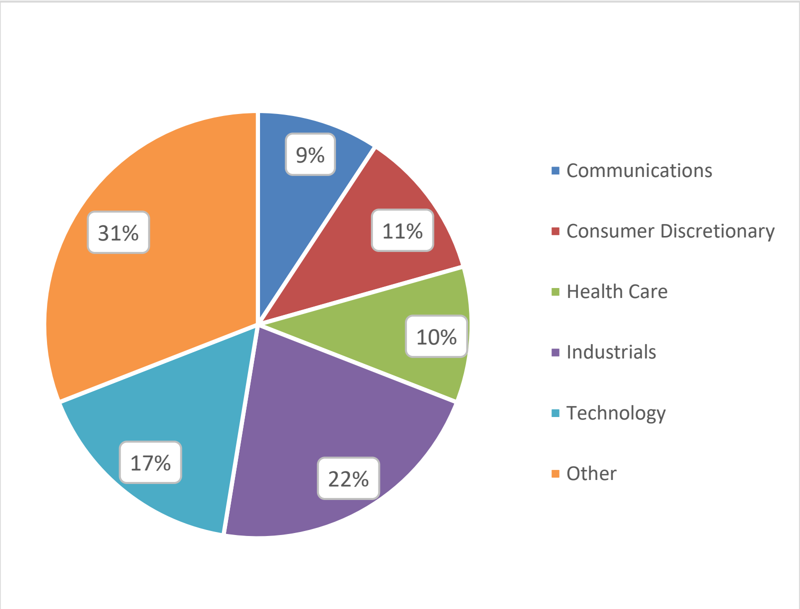

Figure 5: Sample of issuers examined per sector of activity

[5] Defined in Directive 2002/87/EC of the European Parliament and of the Council (FICOD).
[6] Commission Regulation (EU) 2017/1988 of 3 November 2017

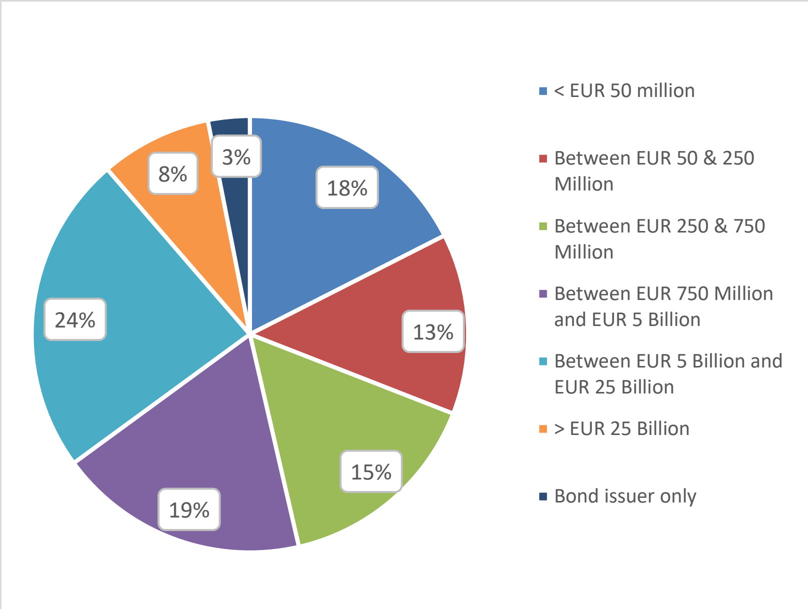

Figure 6: Market capitalisation of issuers examined at 31/12/2017 in EUR (mil)

30. ESMA notes that none of the issuers in the sample adopted IFRS 15 before its mandatory date and only three adopted IFRS 15 and IFRS 16 *Leases* at 1 January 2018. All of them disclosed the expected impact of application of both standards separately. ESMA welcomes the fact that more than 90% of issuers in the sample provided some information on the implementation and the expected impact of IFRS 15.

31. ESMA also notes that the majority of issuers provided detailed disclosures of their identification of performance obligations. Other key concepts of the standard (such as the principal vs agent analysis, the allocation of transaction price, contract price etc) were not as commonly disclosed, mostly because not material for the issuer or because the issuer was not concerned by them.

32. Similarly, only around half of the financial statements reviewed disaggregated the expected impacts on their different activities / lines of business, such as different reporting segments, and only few more provided information on the accounting policy choices expected to be applied upon transition (such as the transition approach or use of practical expedients).

33. Thirty five percent of the issuers in the sample for whom the impact of IFRS 15 was expected to be material did not provide quantitative impact of IFRS 15 on the financial performance or statement of financial position. Over 40% did not provide additional qualitative information enabling users to understand the magnitude of the expected impact on the financial position or on the asset.

34. The data gathered showed that only half of the issuers in the sample provided both

qualitative and quantitative disclosure on the expected impact of IFRS 15 at the 2017 year-end and that the quality of disclosure varied across Europe. ESMA would have expected that issuers could have provided adequate disclosures and sufficient transparency for upcoming application of IFRS 15 since the implementation process was most likely concluded by the time financial statements were drawn up. Nevertheless, this data shows that issuers provided progressively more relevant and specific information as the implementation project of IFRS 15 progressed compared for instance to the fact-finding exercise ESMA carried out on 2017 interim financial statements[7] when only one-third of issuers provided quantitative entity specific disclosures on the impact of IFRS 15 in the 2017 interim financial statements.

Enforcement actions

35. European enforcers took eight actions with regards to the information provided in financial statements on the expected impact of IFRS 15, of which two corrective notes and six corrections in future financial statements. Five more cases are currently ongoing. If these will lead to actions, they will be reported in the 2019 Activity Report.

IFRS 3 *Business Combinations*

36. European enforcers reviewed application of the specific measurement and disclosure requirements of IFRS 3 highlighted in the ECEP 2017 by reviewing a sample of 49 issuers which had undergone a material business combination over the year 2017. The sample comprised of a variety of business sectors and market capitalisation, as represented in the figures below.

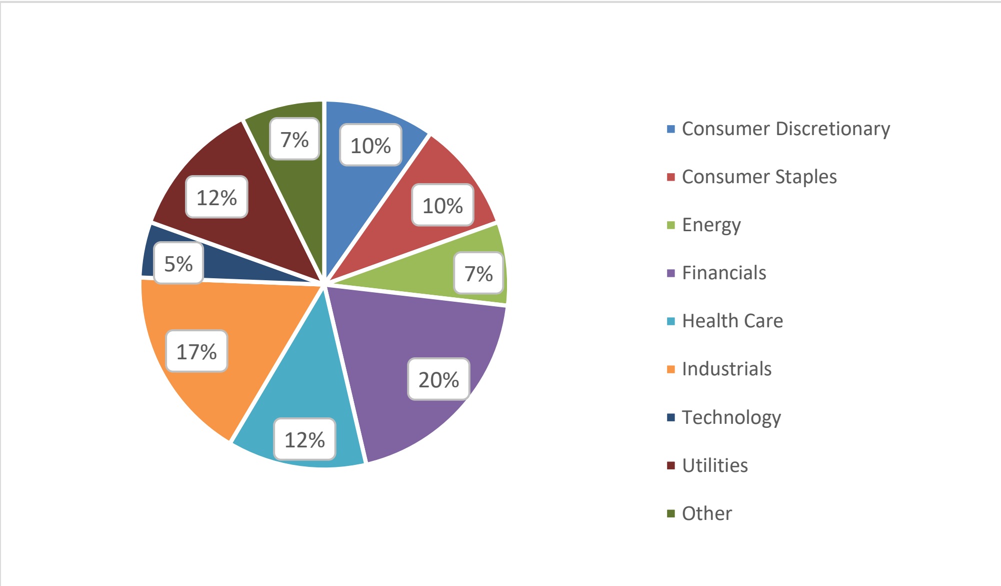

Figure 7: Sample of issuers examined per sector of activity for IFRS 3 – Business combinations

[7] ESMA32-63-364 – *Fact-finding exercise on disclosure of the impact of the new accounting standards in the 2016 annual and 2017 interim IFRS financial statements*, 27 October 2017

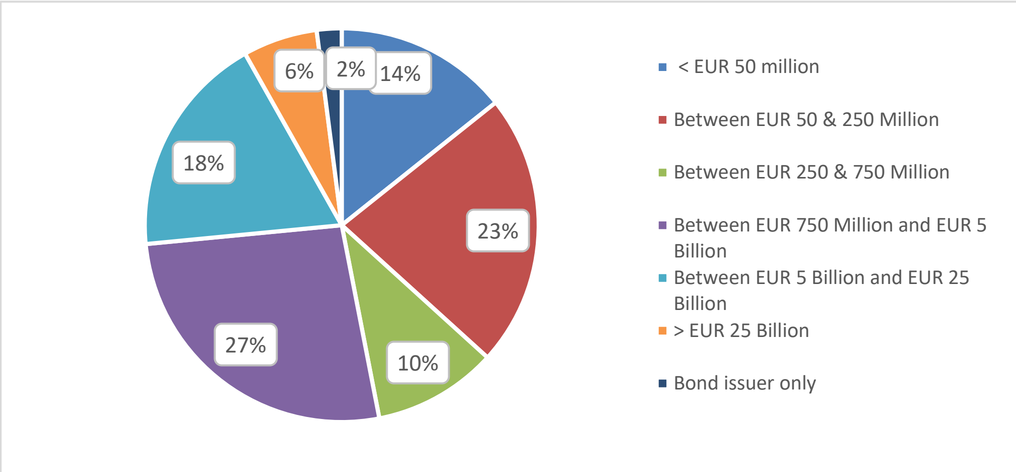

Figure 8: Market capitalisation of issuers examined at 31/12/2017 in EUR (mil) for IFRS 3 – Business Combinations

37. ESMA welcomes the fact that the large majority of those issuers for which the business combination was material used consistent assumptions to measure intangible assets at the initial recognition (i.e. fair value for the purpose of a purchase price allocation (PPA)) and to determine their useful lives and annual amortisation.

38. Twenty percent of issuers were not consistent in their assumptions to measure intangible assets at the initial recognition. ESMA understands that there might be differences between the assumptions used at the initial recognition compared with the assumptions used in subsequent measurement (i.e. determining the useful lives/annual amortisations) such as for instance when there are new investments in these assets prolonging their useful life. However, in other cases, ESMA highlights that issuers need to be consistent in the assumptions used from inception.

39. All issuers in the sample identified intangible assets in accordance with the separability criterion described in Paragraph B33 of IFRS 3, except for three issuers which either did not acquire any intangible assets or acquired only intangible assets arising from legal rights (for example, a brand name), which met the contractual-legal criterion (Paragraph B32 of IFRS 3).

40. ESMA further notes that almost all issuers for which the business combination was incomplete at the end of the reporting period disclosed this fact and identified the relevant items as provisional. In most of these items, provisional measurement often related to fair value of property plant and equipment and/or intangible assets. Over 60% did not disclose the reasons why the initial accounting for the business combination is incomplete. One investigation is currently ongoing on this point because the enforcer deemed that the disclosures did not provide specific information on the incomplete accounting. Whilst ESMA does not encourage boilerplate disclosures if the issuers' own analysis is still ongoing, ESMA encourages issuers to provide any relevant and entity-specific information depicting the status and major issues to be dealt with.

41. Twenty two percent of issuers in the sample disclosed a bargain purchase and a related

gain. Over half of them did not fully disclose the information required by Paragraph B64(n) of IFRS 3, most notably by omitting to disclose the reasons why the transaction resulted in a gain. This finding is consistent with ESMA's conclusions in its report on the application of IFRS 3.[8] ESMA highlights that bargain purchases may impact issuers financial statements significantly. Disclosing information regarding the reasons for the recognition of bargain purchases is key to understanding the rationale and the merits of the transactions.

42. When business combinations included contingent payments (20% of the issuers in the sample), the majority of these issuers (70%) disclosed the amount recognised on the acquisition date and described the arrangement and basis for determining the amount of the payment. However, 60% of these issuers did not provide any information about a range of outcomes (undiscounted), a statement that there is no maximum amount, or that a range cannot be estimated as required in Paragraph B64(g) (iii) of IFRS 3. Some enforcers challenged issuers, requesting any relevant information in these regards to be disclosed.

43. Fourteen percent of issuers were obliged by regulatory requirements to offer to purchase the ownership interests of non-controlling interest. All except for one issuer applied consistently the accounting policy selected in accordance with Paragraphs 10-12 of IAS 8 and how it accounts for mandatory tender offers in accordance with Paragraphs 117 and 121-122 of IAS 1 *Presentation of Financial Statements*.

44. Finally, similarly to the findings in Report on the application of IFRS 3 mentioned above, ESMA notes that whilst the majority of issuers that disclosed assumptions and measurements techniques used when determining the fair value of the acquired assets and assumed liabilities, did so following ESMA's recommendations, around 10% only relied on external valuations and around 30% did not disclose all relevant information. For instance, in some cases issuers did not discuss the main assumptions used in the different measurement methodologies or did not provide quantitative information. A number of enforcers challenged issuers on this point.

Enforcement actions

45. Following examinations, European enforcers took enforcement actions against six issuers, of which two required a corrective note and four a correction in future financial statements. Seven further cases are still ongoing. One ongoing case concerns business combination under common control. If ongoing cases lead to actions, they will be reported in the 2019 Activity Report.

[8] ESMA/2014/643, Report – *Review on the application of accounting requirements for business combinations in IFRS financial statements*, 16 June 2014

Specific issues of IAS 7 *Statement of Cash Flows*

46. European enforcers reviewed application of specific issues of IAS 7 such as reconciliation of liabilities arising from financing activities for 98 issuers for whom cash and cash equivalents were material in their 2017 IFRS financial statements. The sectorial and capitalisation distribution of the issuers analysed is presented in the charts below.

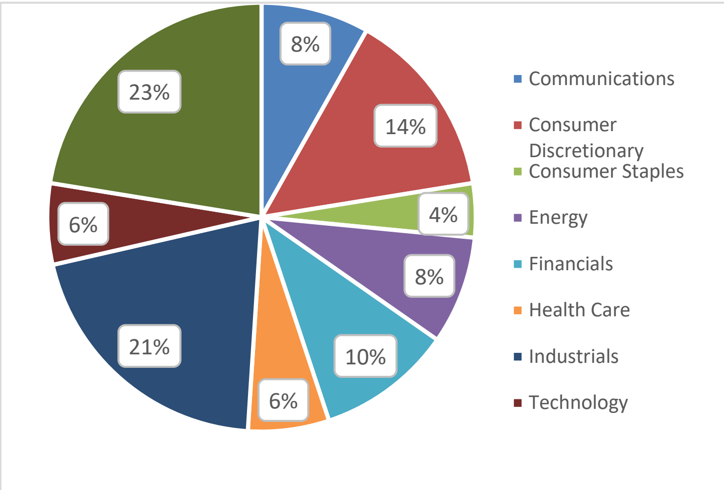

Figure 9: Sample of issuers examined per sector of activity for IAS 7 – Statement of Cash Flows

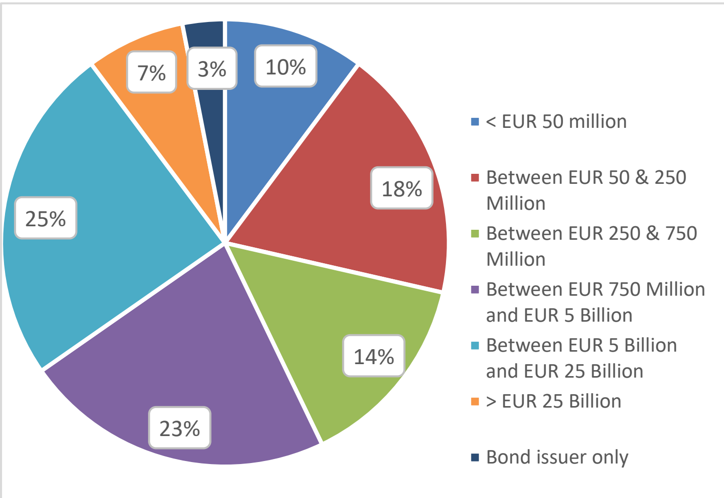

Figure 10: Market capitalisation of issuers examined at 31/12/2017 in EUR (mil) for IAS 7 – Statement of Cash Flows

47. ESMA welcomes the fact that almost 80% of issuers in the sample disclosed information that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, in line with Paragraph 44A of IAS 7 applicable for the reporting periods starting on or after 1 January 2017. Only few issuers dispersed the relevant

information across different notes and did not aggregate it in a single table as recommended by IAS 7. Around two thirds of financial statements reviewed used the tabular format of reconciliation shown in the illustrative example E to IAS 7, which ESMA encouraged in the 2017 ECEP Statement, whilst less than 10% provided a reconciliation in another format.

48. ESMA notes that 60% of issuers provided an entity-specific accounting policy on which issuers' instruments or facilities meet the definition of cash and cash equivalents in accordance with Paragraph 6 of IAS 7. While around 40% of issuers disclose whether and for what amounts overdraft bank facilities and balances resulting from cash pool facilities are considered as cash and cash equivalents, the majority did not provide sufficient information in this regard. ESMA emphasises the need to provide an entity-specific accounting policy on which issuers' instruments or facilities meet the definition of cash and cash equivalents in accordance with Paragraph 6 of IAS 7.

49. ESMA notes that 13% of issuers in the sample disclosed the fact that investments in money market funds (MMF) were included in cash and cash equivalents. However, these issuers did not always fully disclose the judgements and assumptions made in classification in the different types of investments in MMFs as cash and cash equivalents. ESMA wishes to stress that for every material balances of MMF included in cash and cash equivalents issuers are expected to disclose the significant judgements leading to a classification as cash and cash equivalent.

50. Twelve percent of issuers only disclosed that they hold material balances in jurisdictions whose currencies were subject to limited exchangeability or capital controls causing the significant restrictions on their ability to access the assets of the group. Other than those, 18% of the issuers in the sample also disclosed a number of other circumstances impacting their ability to access assets of the group, such as for example collateralised assets, loans behind covered bonds, assets accumulated for decommissioning of plant and equipment or for environmental restoration of exploited sites and so on. Whilst the low number of such disclosures might be due to the non-materiality of the issue for the majority of issuers in the sample, it might also be indicative of a low level of transparency provided in the financial statements. ESMA reminds issuers that Paragraph 48 of IAS 7 and Paragraphs 13 and 22 of IFRS 12 *Disclosure of Interests in Other Entities* require disclosure of cash and cash equivalents balances not available for use by the group and emphasises the importance of such disclosures for end-users.

Enforcement actions

51. Enforcers took 12 enforcement actions in the area of IAS 7, including two corrective notes and ten corrections in future financial statements. Twelve further actions are currently ongoing. The classification of bank overdrafts and cash pool balances, change in liabilities from financing activities, and request to expand disclosures on the nature of cash flow items in a way that would allow to better understand the data were among the issues enforcers most enforced against.

3.1.3. Conclusion on 2017 ECEP relating to IFRS Consolidated Financial Statements

52. As a result of the significant changes that IFRS 15 and IFRS 9 are expected to bring to a large number of listed companies, and credit institutions in particular, ESMA has repeatedly emphasised the importance of disclosures relating to the implementation of the new standards and their expected impact on the financial position, capital position and/or performance.

53. The transparency and effectiveness of disclosure on the impact of the implementation of the new standards have significantly improved as the implementation efforts have progressed. However, ESMA notes a relatively high number of non-entity specific and boilerplate disclosures for the 2017 financial statements, even in this last year prior to the standards coming into application, which has an impact on the transparency on implementation. Whilst this might stem from a slower-than-expected progress in implementation of the standard, which resulted in lack of confidence in the precision of the information available, ESMA also questions the level of preparedness for the ongoing application of the new standards for those issuers which have failed to provide sufficiently entity-specific disclosures on the expected impacts and on their implementation progress.

Enforcement Actions

54. Overall, enforcement actions were taken against 28 of the 260 issuers in the sample used for the assessment of how ECEP were addressed, and 29 investigations are still ongoing. Almost half of the actions taken were on IAS 7.

55. Please note that a number of issues identified by European enforcers with regards to the disclosures related to expected impact of the implementation of new standards discussed in the paragraphs above were addressed by issuers in the interim Financial Statements 2018, when IFRS 9 and IFRS 15 were already applied. Consequently, in several cases enforcers deemed it most effective not to pursue one of the enforcement actions defined in EFI Guidelines on the 2017 yearly financial statements.

Table 1: Enforcement actions on the sample of issuers in the ECEP

Type of action	Transition disclosures (IAS 8)				IFRS 3	IAS 7	Number of issuers subject to actions
	IFRS 9 corporates	*IFRS 9 banks*	*IFRS 9 insurance companies & conglomerates*	*IFRS 15*			
Reissuance of financial statements	0	0	0	0	0	0	0
Public corrective notes	0	0	0	2	2	2	6
Corrections in future financial statements	1	0	1	6	4	10	22

Total number of enforcement actions	1	0	1	8	6	12	28
Sample size	54	35	20	97	49	98	260[9]
Sample action rate	2%	0%	5%	8%	12%	12%	11%

3.2. Other considerations for 2017 Annual Financial Reports in the 2017 ECEP statement

56. The 2017 ECEP statement contained, other than the above-mentioned IFRS-related priorities, also a number of considerations relating to other parts of the annual financial report, namely non-financial information and Alternative Performance Measures (APMs), in response to the requirements set out by the amended Accounting Directive (as transposed into national law) and the principles set out in ESMA's Guidelines on APMs.

57. This section summarises how the issuers reviewed by European enforcers for the specific purpose of reporting on these considerations have complied with the requirements in Articles 19a and 29a of the Accounting Directive relating to the Non-Financial Statement (NFS) and which have become applicable in most Member States for reporting period starting on or after 1 January 2017.

3.2.1 Analysis of the other considerations relating to non-financial information

58. European enforcers have assessed a sample of 70 issuers in 24 EEA countries. Fifty-six percent of these issuers included the NFS as part of the management report and 44% presented it as separate statement. NFS were assessed with respect to the following disclosure requirements: the business model of the issuer, the policies, outcome and due diligence processes in relation to the material non-financial matters (i.e. environmental, social, employee, human rights and anti-corruption matters), the related principal risks and the relevant key performance indicators (KPIs). In addition, enforcers also assessed if issuers provided the disclosures required when an issuer has not pursued any of the non-financial matters recalled by the Accounting Directive. The sectorial and capitalisation distribution of the issuers analysed is presented in the charts below.

[9] As enforcement examinations might cover several areas of the same set of IFRS financial statements, please note that the total number of issuers indicated in the table is lower than the total of the sample sizes in the respective areas.

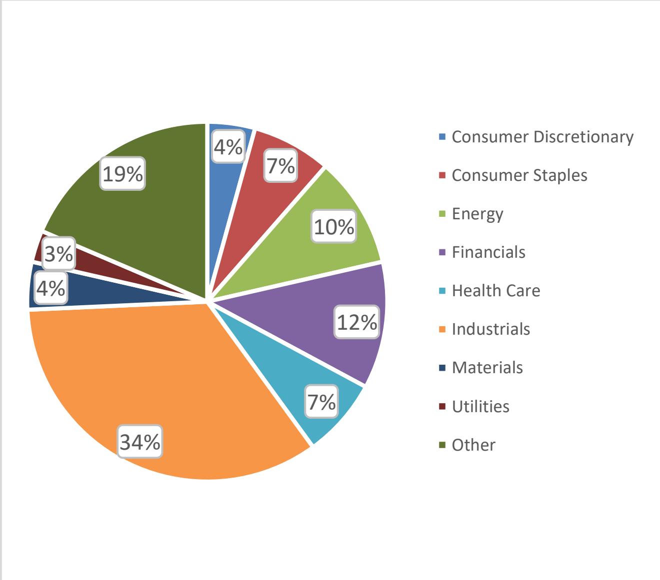

Figure 11: Sample of issuers examined per sector of activity

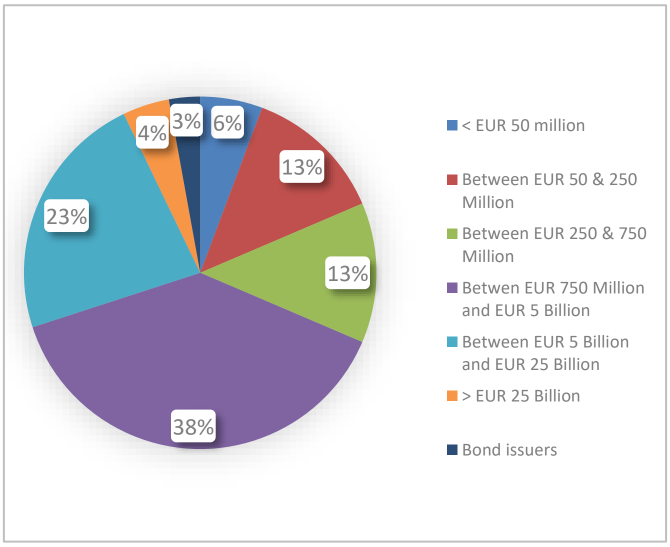

Figure 12: Market capitalisation of issuers examined at 31/12/2017 in EUR (mil) for Non-Financial Statements

59. ESMA welcomes the fact that 97% of the issuers reviewed have provided information on the business model, however ESMA highlights that in some cases the information provided was considered to be generic and/or presented outside the NFS without a clear mapping or referencing system as to where the information could be retrieved.

60. ESMA notes that 77% of the issuers reviewed[10] have provided information on policies relating to all the non-financial matters referred to in the Accounting Directive. However, disclosure of due diligence processes and outcomes associated to these non-financial matters was often omitted either partially or in full. ESMA also regrets that when the discussion of one or more non-financial policies was omitted, only 3% of issuers have provided an explanation as to why they had not pursued a certain non-financial policy.

[10] Differently from the review of consolidated financial statements, the scope of enforcement reviews of non-financial information is not harmonised across the EU.

In this respect, ESMA reminds issuers that, the Accounting Directive requires a *reasoned explanation* for not pursuing a certain non-financial policy. Therefore issuers should provide the reasoning as to why they have deemed a certain policy not relevant. For example, the explanation that due to the location of its activities in a certain jurisdiction, matters such as human rights or anti-corruption are not relevant to a certain issuer may not constitute sufficient reasoning to explain the connection existing between the location of the issuer's operations and the fact that a certain non-financial matter is not relevant.

61. Although the disclosures of social and environmental matters have been provided by more than 96% of the issuers reviewed, ESMA regrets that about 11% of the issuers in the sample did not provide disclosures on matters related to anti-corruption and anti-bribery and about 14% provided information that was regarded as boilerplate. This brings the cumulated amount of missing or unsatisfactory disclosure to approximately 25% of the reviewed issuers. Similarly, 13% of the issuers did not provide disclosure on human rights or provided boilerplate disclosures in 6% of cases, thus reaching a total of 19% of missing or unsatisfactory disclosures in this area. ESMA reminds issuers that the mere reference to a certain non-financial matter, for example by providing solely the description of the policy pursued, does not suffice to fulfil the disclosure requirements for the NFS, as both the outcomes of the policies and the due diligence processes put in place shall also be disclosed.

62. In general, ESMA regrets that 27% of the reviewed issuers provided boilerplate or generic information on one or more areas of the disclosures. ESMA highlights that, according to the Accounting Directive, when describing the policies, outcomes and due diligence processes as well as risks and KPIs relating to the non-financial matters, the information provided shall enable users of the NFS to get an understanding of the "undertaking's development, performance, position and impact of its activity in relation to the non-financial matters". ESMA underlines that issuers should be aware of this requirement when assessing the level of detail of the disclosures to be provided and their specificity.

63. In this respect, ESMA welcomes the practice of some issuers to explain the process pursued to identify the material non-financial matters and the related risks and KPIs. ESMA also welcomes the practice of using specific indexes or maps to present the information in a way that it can be clearly identified, retrieved and referred to, which proves to be particularly useful when the information that the NFS consists of is distributed across different sections of the management report. ESMA highlights that issuers should consider whether the use of cross-references to other documents or sections of the same document may impair a user's ability to understand the issuer's position, performance and impact in relation to the non-financial matters. The existence of more detailed documentation published by the issuer in relation to the non-financial matters (e.g. a sustainability report), should not result in providing generic or boilerplate information within the NFS.

64. In relation to risk disclosures and risk management, ESMA notes that 83% of the issuers have provided information of the risks relating to the non-financial matters.

Notwithstanding the fact that a certain non-financial matter was relevant to them, some issuers have not provided the disclosures in relation to the corresponding risks on the grounds that such risks were not significant. ESMA reminds issuers to place particular care in assessing the risks corresponding to non-financial matters that have been identified as material. Furthermore, ESMA highlights that when assessing the risks they are exposed to, issuers shall take into account both the impact that the issuer's activity may have on a certain non-financial matter, for example the environment, but also the impact that the non-financial matter (for example, climate change) may have on the issuer's performance, position and future prospects. In this respect, ESMA reminds issuers to carefully assess whether their identification of risks is consistent with this *dual* notion of the impacts relating to non-financial matters.

65. ESMA welcomes that 94% of issuers in the sample have disclosed their non-financial KPIs. ESMA notes that in some cases the KPIs could be identified only for some of the non-financial matters, but not for all (for example, not for human rights and/or anti-bribery). ESMA also welcomes the practice of some issuers to present comparative information for the KPIs disclosed and highlights that a clear explanation of the components and calculation of the KPIs, the reason for their relevance and the presentation of comparative information fundamentally contribute to the understanding of the issuer's performance, position and future prospects of the non-financial matters.

66. Lastly, ESMA regrets that 70% of the issuers in the sample did not include in the NFS any references to, and additional explanations of, amounts reported in the annual financial statements. While the disclosure of these references and additional explanation is required by the Accounting Directive only *where appropriate*, ESMA reminds issuers that investors and other stakeholders increasingly demand better integration between financial and non-financial measures of corporate performance and position and, therefore, it welcomes the practice to provide meaningful and relevant linkages between information on the non-financial matters and the information presented in the financial statements.

3.2.2 Conclusion on 2017 considerations relating to other parts of the Annual Financial Report

67. Overall the review of the 2017 NFSs shows that, while issuers have incorporated the basic requirements of Articles 19a and 29a of the Accounting Directive into their reporting, ESMA expects that the quality of the disclosures provided will be significantly improved in the subsequent reporting periods. In this respect, ESMA has highlighted in its 2018 ECEP statement the relevance of the EC's Guidelines on non-financial reporting which, while remaining non-binding in nature, could nevertheless constitute a valid basis for issuers to improve the quality of their disclosures in the NFS.

68. In light of the results of the review of the selected issuers, ESMA also emphasises the importance of preparing the NFS with a clear focus on the objective to provide information that enables users to get an understanding of the undertaking's development, performance, position and impact of its activity, relating to the relevant non-financial matters. In this respect, ESMA underlines that for the first year of

application of the requirements relating to the NFS, European enforcers have in most cases recommended the correction of misstatements and the improvement of the disclosures in future NFS and have also started a dialogue with the concerned issuers to request further clarifications on their disclosure practices. While this approach acknowledges the importance of progressively adapting disclosures to the information needs of investors, it is fundamental that issuers take immediate action to improve the quality of their disclosures.

69. In relation to the applicable disclosure framework, ESMA highlights that the evidence from the reviews conducted by European enforcers strongly supports ESMA's preliminary conclusion in its response to the EC's Fitness Check on Public Corporate Reporting on the fact that the effectiveness of the applicable framework and the comparability of the resulting disclosures would have been greater had the non-financial information Directive set up or indicated a specific framework and accepted a single set of standards to report this type of information.

70. ESMA also notes that the review of the disclosure requirements would also be necessary to improve their enforceability. In this respect, ESMA notes that the optionality that characterises the non-financial disclosure requirements (e.g. in relation to the applicable frameworks, the location and timing of publication of the NFS and the assurance) does not yet allow a satisfactory convergence of disclosure practices thus undermining the consistency of supervisory approaches which is urgent to achieve in this area. A timely revision of the Accounting Directive would not only promote better comparability and enforceability on non-financial information, but it would also enable reaching the high standard of transparency that disclosure requirements currently applicable in the area of financial information promote thanks to the IAS Regulation.

Enforcement actions

71. The considerations regarding the NFS in the ECEP 2017 statement for this first year addressed all the requirements in Articles 19a and 29a of the Accounting Directive, therefore the related information on the enforcement actions can be found in the overview of the main indicators relating to the enforcement activity on non-financial information in section 3.7.

3.3. European Common Enforcement Priorities for 2018 Financial Statements

72. As in previous years, ESMA and European enforcers agreed on ECEP in advance of the preparation, audit and publication of the 2018 annual financial reports. The 2018 ECEP statement[11] contains the financial reporting topics that were identified as particularly important for European issuers on the basis of, on the one hand, recurrent enforcement issues encountered by European enforcers and discussed in EECS and, on the other hand, the expected significant changes that the new IFRS standards will

[11] ESMA32-63-503 Public Statement – *European common enforcement priorities for 2018 financial statements*, 26 October 2018

bring. When selecting the topics, ESMA took into account the result of the examinations of financial statements performed in 2018 and consulted with the Consultative Working Group (CWG) of the Corporate Reporting Standing Committee.

73. The 2018 priorities focus on:

    i. specific issues related to the application of IFRS 15;
    ii. specific issues related to the application of IFRS 9; and
    iii. disclosure of the expected impact of implementation of IFRS 16.

74. In the public statement announcing the enforcement priorities, ESMA and European enforcers furthermore urged issuers to continue to provide high quality, entity-specific disclosures, including, amongst other things, with regard to the impact of the decision of the United Kingdom to leave the European Union (Brexit) and to the consequences of Argentina being classified as a hyperinflationary economy.

75. ESMA furthermore highlighted the specific requirements relating to the sections of the annual financial report other than the financial statements, highlighting in particular disclosures on non-financial information with a particular focus on environmental and climate-change related matters and key performance indicators relating to non-financial policies, and specific aspects of the APM Guidelines, namely the definition and explanation of APMs and the principle of prominence.

76. Monitoring the way issuers address these priorities is part of the work programme of ESMA and European enforcers, who will consider these topics in their examinations of the 2018 year-end IFRS financial statements and will report the findings in the 2019 Activity Report.

3.4. Coordination of enforcement decisions

77. In 2018, 46 emerging issues were discussed at the EECS, which represents a slight increase compared to last year, when 41 emerging issues were discussed. The number of decisions submitted and discussed by EECS instead decreased from 2017 to 2018. In 2018 European enforcers submitted 61 decisions to the EECS database, 22 of which were discussed, compared to 78 decisions submitted and 46 discussed in 2017. A majority of decisions that were not discussed during the EECS meetings stemmed from the previous discussions as emerging issues. Furthermore, other topics were presented and discussed in a number of roundtables and thematic reviews.

78. The discussions and the conclusions reached by European enforcers at EECS are intended to improve the level of consistent application and enforcement of IFRS, subject to the specific facts and circumstances of the transactions discussed. ESMA presents below some examples of discussions held at EECS. However, these are neither intended to represent all types of issues discussed nor all areas where the application of IFRS was challenged by European enforcers. They are merely illustrative of some of the issues found.

Implementation issues related to new major standards (IFRS 15, IFRS 16 and IFRS 9)

79. One of the key priorities of ESMA and European enforcers in 2018 has been the discussion on implementation issues related to the new major standards coming into force in 2018 and 2019 (IFRS 9, IFRS 15 and IFRS 16). The following section includes a short overview of some of the discussions.

80. With regards to application of IFRS 15, EECS discussed the disclosure requirements in IAS 34 *Interim Financial Reporting* and IFRS 15 concerning the transition to IFRS 15 in an interim financial report for an issuer applying the modified retrospective method described in Paragraph C3(b) of IFRS 15. Enforcers determined that it was not sufficient to disclose the effect of the transition on the comparative figures (i.e. how revenue would have been reported in Q2 of the previous year if IFRS 15 had been applied). Instead based on the requirements of IAS 34, enforcers were of the view that issuers should disclose the effect on the current period (i.e. how revenue in Q2 of the reporting year would have changed had IAS 11 *Construction Contracts* and IAS 18 *Revenue* still applied). Indeed, enforcers believe that IAS Paragraphs 16A(a) and 43 of IAS 34 point out that when a new IFRS requires a specified method of transition, then this method should be followed in all reporting periods, including, therefore, in interim financial statements.

81. With regards to implementation issues relating to IFRS 15, EECS discussed for example issues related to the satisfying performance obligation at a point in time or over time and the accounting treatment of penalties, and payments required by legislation. With regards to IFRS 16, EECS discussed, among others, issues related to determination of lease term as well as identification of lease and service components in real-estate leases.

82. Given the complexity of application of IFRS 9, and especially the expected loss model (ECL) by financial institutions, ESMA set up a specific temporary task force to discuss and share experiences on the matters related to financial institutions. The group discussed, amongst other things, issues such as the application of criteria for significant increase in credit risk (SICR), the consideration of forward looking information in the ECL model, determination of lifetime ECL as well as a number of issues arising on transition. The enforcers also discussed future impact of the change of definition of default brought about by the recently-released EBA Guidelines[12] in case credit institutions align definition of default used for regulatory purposes and under IFRS 9.

Accounting for operations with hyperinflationary countries

83. In light of the specific economic environment in Venezuela and Argentina, EECS also further discussed the issue of how to reflect the results of Venezuelan and Argentinian foreign operations in the IFRS consolidated financial statements of European issuers.

[12] EBA/GL/2016/07 – *Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013*, European Banking Authority, January 2017

84. EECS discussed, in particular, the consequences of Argentina becoming a hyperinflationary economy in 2018. ESMA and European enforcers discussed, for instance, recognition and presentation of the different effects from the translation to euros of the financial statements of subsidiaries operating in a country, whose currency became hyperinflationary. On a related matter, enforcers also discussed consequences of the currency of the country in which the foreign operation is located becoming hyperinflationary in the course of the annual reporting period.

Other discussions

85. EECS discussed the accounting treatment of specific transactions scoped out of IFRIC 19. In cases where a transaction has been scoped out of application of the interpretation, EECS opined that an accounting policy needs to be developed in accordance with IAS 8. Such an accounting policy could be based on application of IFRIC 19 by analogy if such accounting treatment reflects information that is relevant and reliable.

86. EECS also discussed classification of property currently rented out but acquired with the aim to redevelop it as investment property. Even if, in light of the intention with which the property was acquired, the current lease contract and the income it generates is incidental to the acquisition of the property, the property should be classified on initial recognition as investment property in accordance with Paragraph 8c of IAS 40 *Investment Property*.

87. ESMA and European enforcers furthermore discussed, like in previous years, several issues related to consolidation methods and procedures (IFRS 10 *Consolidated Financial Statements*).

88. It is also worth mentioning that EECS discussed, internally and with third parties, the classification of investments held in bitcoins and other digital currencies. Bitcoins appear to meet the definition of intangible assets, falling under IAS 2 *Inventories* or IAS 38 *Intangible Assets* depending on whether or not they are held for sale in the ordinary course of business. EECS will continue to monitor the issue and most notably the materiality of cryptocurrency transactions in the EU.

3.5. ESMA enforcement database

89. In order to facilitate the sharing of enforcement decisions and experiences, in 2005 ESMA established an internal database to which European enforcers submit the decisions that they have taken as part of their national enforcement processes. In accordance with the GLEFI, European enforcers should submit their emerging issues and enforcement decisions if these meet any of the submission criteria therein defined. European enforcers should consult the database before taking significant enforcement decisions and take into account the outcome of the discussions in EECS on similar issues.

90. As of 31 December 2018, the EECS database includes 1104 decisions and 514

emerging issues and thus constitutes a rich source of knowledge. ESMA regularly publishes enforcement decisions to inform market participants, which accounting treatments European enforcers may or may not consider as complying with IFRS. In 2018 ESMA published one extract from the EECS database[13] containing 10 enforcement decisions. ESMA is confident that this type of extracts is helpful and contribute to the consistent application of IFRS. As the decisions published in these extracts are based on the IFRS requirements valid at the time of preparation of the respective IFRS financial statements, some of them may by now be superseded but most of the decisions are still relevant. ESMA plans to continue publishing enforcement decisions on an annual or semi-annual basis. Published decisions are also included in the database of the International Organization of Securities Commissions (IOSCO).

3.6. Main indicators of the IFRS enforcement activity at national level

91. In order to monitor the level of enforcement activity, ESMA collects data in relation to the number of examinations performed and the number of actions taken by European enforcers. At the European level, at the end of 2017, slightly less than 6,000 issuers of securities were listed on regulated markets[14], of which 5103 prepare IFRS consolidated financial statements, and 750 prepared only non-consolidated IFRS financial statements. Examination rates disclosed in this section are calculated on this basis. Furthermore, 99 issuers prepared consolidated financial statements under third country GAAP deemed equivalent to IFRS (mainly US GAAP).

92. At the end of 2018, the number of issuers whose securities were listed on regulated markets remained broadly stable, with 5019 preparing IFRS consolidated financial statements, 689 preparing only non-consolidated IFRS financial and 95 issuers preparing consolidated financial statements under third country GAAP deemed equivalent to IFRS (mainly US GAAP). For more detailed information by country, please refer to Appendix III.

93. It is worth highlighting that, as further discussed in other sections on this report, in 2018, ESMA and European enforcers expanded their enforcement activities to respond to the demands stemming from new requirements such as those on non-financial information and alternative performance measures. Furthermore, examinations of financial information deal with increasingly more complex and resource-intensive issues. The decline in the 2018 examination rates for financial information evidenced in Table 2 and 4 below is likely to be a result of the combination of these factors.

94. In 2018 European enforcers performed 612 unlimited scope examinations[15] of the financial statements of IFRS issuers[16], covering financial statements of around 10% of

[13] ESMA32-63-427 Report – *22nd Extract from the EECS's Database of Enforcement*, 31 October 2017

[14] This number and subsequent analysis do not include the IFRS financial statements of entities not issuing securities admitted to trading on regulated markets that are required to prepare IFRS financial statements on the basis of options in the IAS Regulation.

[15] Definitions of unlimited scope examination and focused examinations are included in Appendix I to this report.

[16] Each issuer is only counted once; in the case where both annual and interim financial statements were examined, only annual financial statements count.

listed IFRS issuers in Europe (12% in 2017). In addition, the financial statements of 335 IFRS issuers were subject to focused examination, representing a coverage of around 6% of the listed IFRS issuers (7% in 2017). Altogether, in 2018, the financial statements of 16% (19% in 2017) of the entities listed on European regulated markets preparing financial statements according to IFRS were subject to examination by European enforcers. Of these, 885 IFRS issuers were subject to ex-post examinations, which represents a decrease in relation to the previous year (1,005 in 2017). Furthermore, European enforcers performed follow-ups of examinations completed in previous periods on 241 issuers. Such follow-ups are not included in the statistics below because they are not governed by the GLEFI.

95. Furthermore, 12 preclearance of financial statements, and 50 reviews of financial information contained in prospectuses were carried out. Last year, these two categories had been aggregated into one single category of 'ex-ante examinations' and reported to be 136.

Table 2: Number of issuers examined

	Number of issuers examined			
	Unlimited scope	Focused	Total 2018	Total 2017
Financial statements contained in financial reports				
• ***Ex-post examinations***	582	303	885	1005
Annual IFRS financial statements	555	233	788	908
Interim IFRS financial statements [17]	27	70	97	97
• ***Pre-clearances***	0	12	12	136
Financial statements in Prospectuses reviewed on the basis of the GLEFI [18]	30	20	50	
Total number of issuers preparing IFRS financial statements subject to examination	612	335	947	1141
Ex-post examinations of financial statements prepared using third country GAAP deemed equivalent to IFRS	7	0	7	3

96. ESMA also provides information by clusters of countries reflecting the size of the respective capital markets at 2017 year-end. The clusters have been determined based on the number of issuers listed on regulated markets in each jurisdiction preparing financial statements in accordance with IFRS (see Appendix II).

97. Table 3 lists the countries included in each cluster at the end of 2017.

Table 3: Number of IFRS issuers per country at 2017 year-end

[17] Please note that whenever an issuer has been reviewed both for interim and annual financial statements, only the latter review is counted for the purpose of these statistics.
[18] Please note that only reviews of financial statements in IPO prospectus carried out in accordance to Guideline 6 of the GLEFI are counted for the purpose of these statistics. Please find more information on prospectus examinations in Annex IV.

Number of IFRS issuers	Countries
1-99 issuers	Cyprus, Czech Republic, Estonia, Hungary, Iceland, Ireland, Latvia, Lithuania, Malta, Portugal, Romania, Slovakia, Slovenia
100-249 issuers	Austria, Belgium, Croatia, Denmark, Finland, Greece, Italy, Luxembourg, Netherlands, Spain
250-449 issuers	Bulgaria, Norway, Poland, Sweden, Germany
>450 issuers	France, United Kingdom

98. In around 33% of the ex-post examinations performed during 2018, European enforcers have taken enforcement actions, a slightly higher rate than in the previous year (in 2017, 32%), although the absolute number of examinations has substantially decreased by over 100 examinations.

99. The following table summarises the actions and examinations undertaken by enforcers in relation to IFRS issuers during 2018 and divides countries in clusters by the number of issuers.

Table 4: Number of examinations and actions for IFRS issuers in 2018

	Number of issuers per cluster[19]	Issuers subject to unlimited scope examinations	Unlimited scope examination rate	Total number of issuers subject to examinations	Examination rate[20]	Total number of issuers subject to ex-post examinations	Total number of issuers for which actions were taken	Sample action rate[21]
Countries with 1-99 issuers	797	117	15%	181	23%	165	50	30%
Countries with 100-249 issuers	1437	154	11%	288	20%	267	100	38%
Countries with 250-450 issuers	1783	199	11%	290	16%	276	52	19%
Countries with >450 issuers	1836	142	8%	188	10%	177	94	54%
Enforcement indicators for 2018	**5853**[22]	**612**	**10%**	**947**	**16%**	**885**	**296**	**33%**
2017	*5956*	*686*	*12%*	*1141*	*19%*	*1005*	*328*	*32%*
2016	*5961*	*812*	*14%*	*1258*	*21%*	*1147*	*311*	*27%*

100. Please refer to Annex IV for the disaggregated figures of examinations by country and for further information on the different level of examination activity across

[19] As of previous year-end
[20] Number of issuers examined divided by total number of issuers.
[21] Number of issuers for which actions were taken divided by number of issuers subject to ex-post examination.
[22] Number of issuers listed as of 31/12/2017, therefore used for selection of a sample for examinations of ex-post examinations in 2018.

different jurisdictions.

101. ESMA performed an analysis of the type of actions taken by European enforcers during 2018. An enforcement action related to a single issuer might have identified multiple material misstatements. In around 22% of the actions taken, European enforcers requested immediate disclosure to the market by the issuance of corrective notes or by reissuance of financial statements, whereas in 78% of the cases European enforcers considered corrections in future financial statements to be sufficient. Please refer to Annex V for the disaggregated figures of actions by country.

Table *5*: Number of IFRS issuers for which actions were taken[24]

	Relating to recognition/ measurement issues		Relating only to disclosure[23]		Total
	Annual IFRS Financial statements	**Interim IFRS Financial statements**	**Annual IFRS Financial statements**	**Interim IFRS Financial statements**	
Require a reissuance of the financial statements	3	0	2	1	6
Require a public corrective note	19	6	29	4	58
Require a correction in future financial statements	74	17	124	17	232
Total 2018	**96**	**23**	**155**	**22**	**296**
Total 2017	*181*		*147*		*328*
Total 2016	*153*		*158*		*311*

102. When deciding to require a correction in future financial statements (rather than an action leading to information provided immediately to the market), enforcers consider the timing of the decision (e.g. the next financial statements' publication time), its nature and the surrounding circumstances, such as the assessment whether the market is sufficiently informed at the moment the decision is taken. In over half of the cases in which the enforcer took actions, corrections regarded issues relating to disclosures (presentation issues) rather than recognition and measurement.[25]

[23] Actions defined as relating *to disclosures only* are defined as those actions requiring further disclosures or changes in the disclosures provided (including changes in the figures), but also include presentation issues which do not relate to measurement or recognition.

[24] If an enforcer took two enforcement actions on the same issuer (e.g. a corrective note and a correction in future F/S) this is only counted as one action (the most severe one).

[25] Please note that in this categorisation, presentation issues which have an impact on recognition are included within the category *relating to recognition and measurement*.

103. Figure 13 presents an overview of the accounting topics in which enforcers have taken actions in 2018:

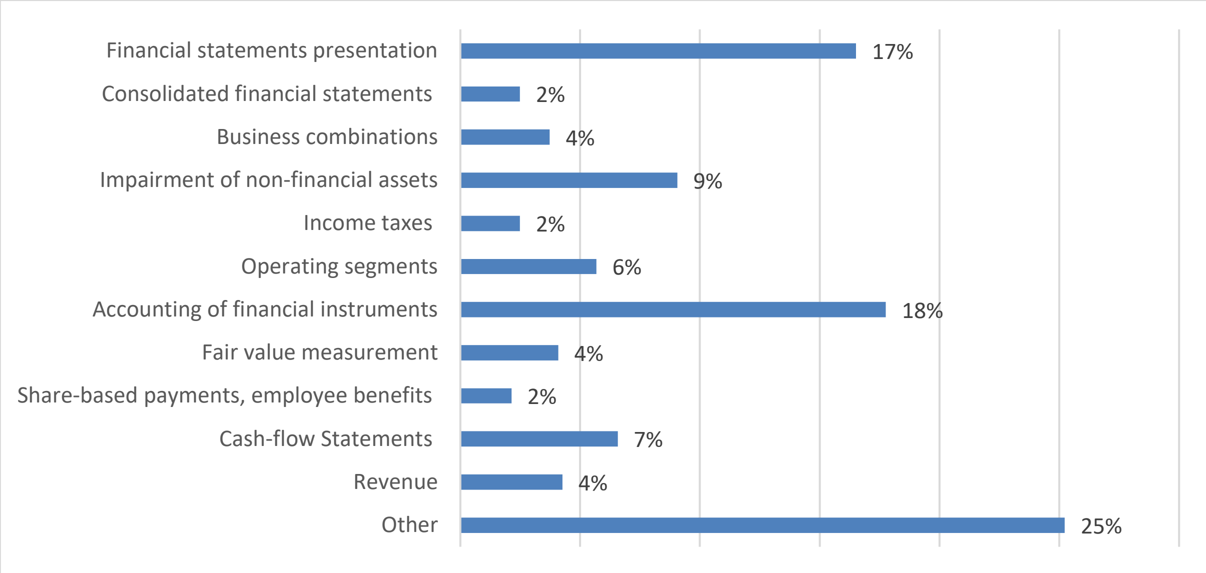

Figure 13: Areas addressed by enforcement actions taken in 2018

104. ESMA notes that the areas where most infringements were identified by European enforcers remained consistent when compared with previous years. Actions of significant importance related to: (1) accounting for financial instruments (2) financial statements presentation, (3) impairment of non-financial assets. These three areas represent 44% of all the issues addressed by enforcement actions taken by European enforcers in 2018.

105. The share of actions European enforcers took in these three areas, compared to all actions taken by them in 2017, remained broadly stable compared to last year. 18% of the actions taken related to the accounting for financial instruments (13% in 2017); 17% to the financial statements' presentation (18% in 2017); 9% to impairments of non-financial assets and (11% in 2016).

3.7. Main indicators of the enforcement activity at national level with relation to other parts of the Annual and Interim Financial Reports

106. In order to monitor the level of enforcement activity related to requirements stemming from the revised Accounting Directive[26] (as transposed into national law) in light of the ESMA Guidelines on APM,[27] ESMA has collected statistics in relation to the number of examinations performed and the number of actions taken by European enforcers with regards to other parts of the Annual and Interim Financial reports.

[26] Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups.
[27] ESMA/2015/1415en – *ESMA Guidelines on Alternative Performance Measures*, 5 October 2015

Guidelines on Alternative Performance Measures (APMs)

107. ESMA Guidelines on APMs set out principles regarding the presentation and disclosure of performance measures outside financial statements, such as the labelling, reconciliations, definitions, prominence and comparability, to ensure that true and fair value principle is complied with by issuers. At European level, enforcers reviewed a total of 746 Management Reports to assess the correct utilisation and disclosure of APMs, articulated in the following way:

Table 6: Number of issuers examined

Number of issuers examined for the purpose of the APM Guidelines			
Type of review	*All APMs principles*	*Selected APMs principles*	*Total 2018*
Year-end management report	601	58	659
Interim management report	51	36	87
Total examinations	**652**	**94**	**746**

108. In 2018 European enforcers examined the compliance with the APMs Guidelines of around 15% of management reports of IFRS listed issuers in Europe. Almost 90% of the reviews covered all APMs principles.[28]

109. The following table summarises the actions and examinations undertaken by enforcers in relation to the management reports of IFRS issuers during 2018 and divides countries in the same clusters mentioned in the previous section.

Table 7: Number of examinations and actions regarding the management reports of IFRS issuers in 2018 with regards to APMs

	Number of issuers per cluster	Total number of issuers subject to examinations	Examination rate[29]	Total number of issuers for which actions were taken	Action rate[30]
Countries with 1-99 issuers	797	152	19%	35	23%
Countries with 100-249 issuers	1783	152	11%	31	20%
Countries with 250-450 issuers	1775	229	13%	11	5%
Countries with >450 issuers	1836	213	12%	59	28%
Total 2018	**5853**	**746**	**13%**	**136**	**18%**

[28] Please note that this does not imply necessarily that the management reports complied fully with the provisions of the Accounting Directive as transposed in local law.

[29] Number of issuers examined divided by total number of issuers.

[30] Number of issuers for which actions were taken divided by number of examinations carried out.

110. In around 18% of the examinations performed during 2018, European enforcers have taken enforcement actions with regards to APMs, which is stable compared to 2017, when the analysis following on the ECEP 2016 had concluded that 35 actions had been taken with regards to application of the APM Guidelines out of a sample of 170 Annual Financial Reports (19% action rate).

111. ESMA also performed an analysis of the type of actions taken by European enforcers during 2017. An enforcement action related to a single issuer might have identified multiple areas of non-compliance.

Table 8: Number of Management Reports of IFRS issuers for which actions were taken

	Year-End Management Report	Interim Management Report	**Total**
Require a reissuance of the management report	2	0	2
Require a public corrective note	18	5	23
Require a correction in future management reports	95	16	111
Total 2018	**114**	**21**	**136**

112. Figure 14 presents an overview of the topics on which enforcers have taken actions in 2018:

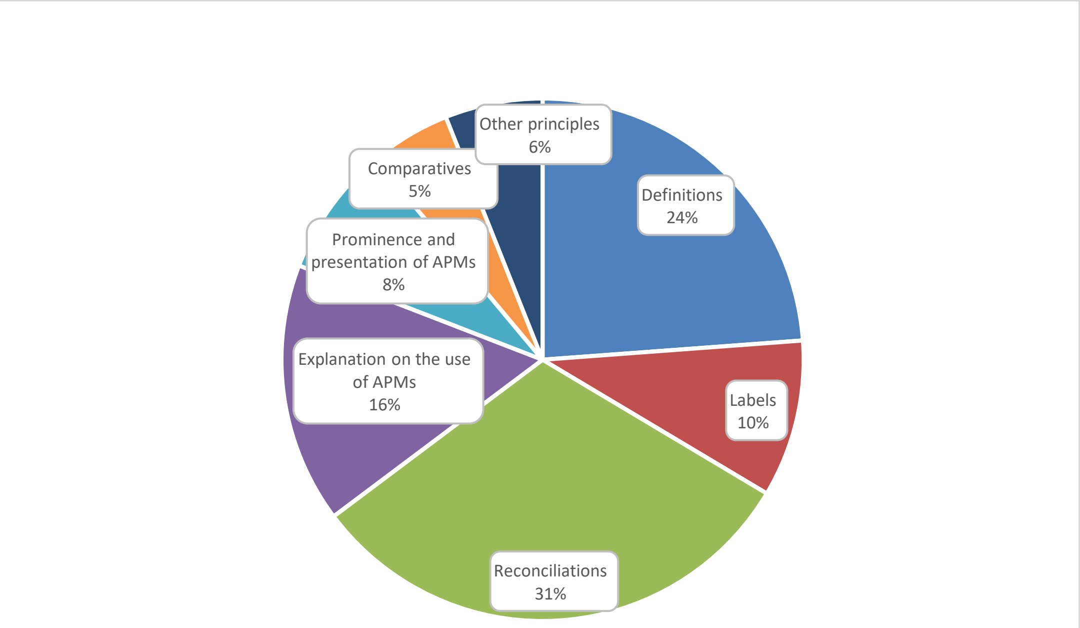

Figure 14: Areas addressed by enforcement actions on APMs taken in 2018

113. ESMA notes that the area in which most infringements were identified are

reconciliations, definitions and explanation of use. These three areas represent 71% of all the issues addressed by enforcement activity by European enforcers in relation to the APM Guidelines.

114. The overwhelming majority of these actions required a correction in future management reports.

Non-financial information

115. As mentioned in the section relating to the review of the Other considerations relating to narrative reporting in the ECEP statement, the 2017 year-end was the first time that the requirements of the amended Accounting Directive (as transposed into the national law) were applied. The number of issuers listed on regulated markets within the scope of enforcement activities for the purpose of applying Article 19a or Article 29a of the Accounting Directive estimated on a best-effort basis by 27 European enforcers was 2600[31].

116. At European level, during the calendar year 2018, the number of issuers examined for the purpose of the supervision on the requirements resulting from the local transposition of Article 19a and 29a (Non-Financial Statement, hereafter NFS) was 819 in total. Of these, 550 included the NFS in the year-end management report, and the remaining 269 presented the NFS as a separate document.

117. Please note that an examination on the existence-only of the NFS is a review aiming at verifying whether the NFS has been presented by the issuer for all the relevant parts. On the other hand, an examination of the existence *and* the content of the NFS is a review that, in addition to the mere existence of the disclosures, considers also whether the information provided in the NFS meets in substance the requirements in Article 19a or 29a. The table below summarises the number of issuers examined for each of these categories.

Table 9: Number of NFS reviewed with regards to the NFS

	Existence only	Existence + Content	Total
NFS included as part of the Year-end Management Report	270	280	550
NFS presented as a separate document	164	105	269
Total	**434**	**385**	**819**

118. In 2018, European enforcers covered 31% of the total estimated number of NFS within the scope of enforcement activities. However, of these, less than half

[31] The estimate is based on the information available to national enforcers, taking into account the differences in the transposition of the relevant requirements of the Accounting Directive. In some cases, only estimated data was available.

covered both existence and content of the disclosures.

119. Fifty-one enforcement measures were taken with regards to NFS. Of these, 20 were actions under the meaning of the GLEFI . As illustrated by the table below, the majority required corrections in future NFS. Furthermore, 31 other measures were also taken by enforcers to assess and clarify the content of the NFI disclosed.

Table 10: Number of enforcement measures undertaken with regards to the NFS

	NFS included as part of the Year-end Management Report	NFS presented as a separate document	Total
Require a reissuance of the non-financial statement	0	0	0
Require a public corrective note	3	0	3
Require a correction in future non-financial statements	16	1	17
Total actions	**19**	**1**	**20**
Other measures	17	14	31

120. Figure 15 presents an overview of the main aspects of non-financial information disclosures on which enforcers took enforcement actions or other measures with regards to the NFS.

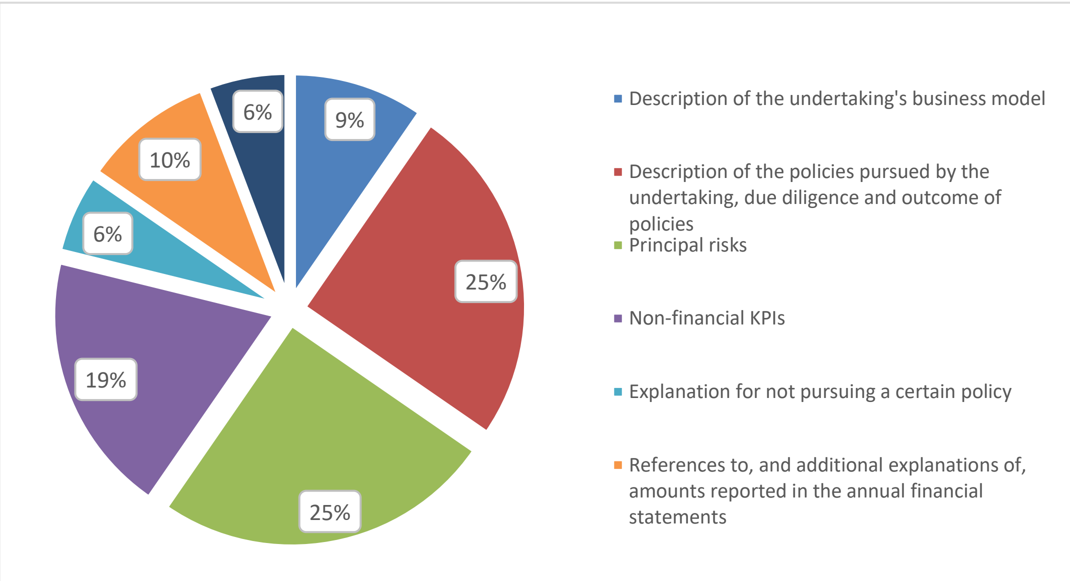

Figure 15: Areas addressed by enforcement actions and other measures taken in 2018

121. ESMA notes that the area in which most infringements were identified are the description of the policies pursued by the undertakings, due diligence and outcome

of policies (25%), principal risks (25%) and Non-financial KPIs (19%), which combined make up almost 70% of all actions taken.

3.8. Other supervisory convergence activities

122. In 2017, ESMA conducted and made public the results of the Peer review[32] on some of the GLEFI. Notably, on Guideline 2 (effectiveness of the enforcement and financial and human resources), Guideline 5 (selection methods) and Guideline 6 (examination procedures). The Peer Review Report contained a number of recommendations where NCAs and/or ESMA should consider further action to strengthen supervisory convergence, including, among others, on further harmonisation of the selection models in place and on the procedures undertaken by enforcers when examinations are performed. In 2018, ESMA took steps to follow-up on the Peer Review results by setting up a task force devoted to the assessment of the recommendations contained in the Report, most notably with regards to potential amendments to the Guidelines and the drafting of internal guidance, which should enhance supervisory convergence in the area of enforcement of financial information.

123. Beyond its regular activities linked to supervisory convergence, ESMA also ensures that international developments that may have an impact on European issuers are dealt with consistently. With this objective in mind, for instance ESMA issued a Public Statement on the accounting implications of US tax reform in January 2018[33] to provide clarifications on accounting for the income tax consequences of the Act under IFRS and to avoid the risk of inconsistent application of IFRS in the European Union.

124. In addition to that, in 2018 ESMA established an expert group with the assignment to draft an internal Supervisory Briefing on IAS 12 *Income Taxes* on the supervisory practices that can be undertaken by enforcers when analysing and enforcing IAS 12 requirements related to the recognition, measurement and disclosure of DTAs arising from unused tax losses. In particular, guidance will focus on the enforcement practices related to the nature and extent of evidence enforcers should expect issuers to provide to support their conclusions that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. ESMA expects that this Supervisory Briefing will constitute helpful guidance to enforcers and will foster more harmonised enforcement of IAS 12.

125. Finally, to ensure that there is no duplication or absence of supervision, since Q1 2016 ESMA continues to prepare bi-yearly a consolidated list of issuers, including a methodological framework giving guidance on how and when NCAs may cooperate with each other and contact issuers for the identification and disclosure of their home Member State. Identification of the home Member State is a key element to ensure that every issuer whose securities are admitted to trading on an EU regulated market falls under the supervision of one and only one NCA. During the course of the year 2018,

[32] ESMA 42-111-4138 Peer Review Report – *Peer Review on Guidelines on Enforcement of financial information*, 18 July 2017, ESMA, Paris

[33] ESMA32-63-423 – *Accounting for Income Tax consequences of the United States Tax Cuts and Jobs Act under IFRS*, 26 January 2018

ESMA continued to collect information from NCAs, provided guidance to address the incoherence identified and organised trainings for NCA staff.

3.9. Supervisory Convergence Work Programme for 2019

126. In the coming year, ESMA will continue pursuing its objectives in the area of corporate reporting, aiming to contribute to the transparency of financial and non-financial information relevant to the decision making process of investors. These activities include preparing the 2019 ECEP Statement as well as coordinating enforcement activity related to financial information and to the application of the Directive on non-financial information and of ESMA Guidelines on APMs.

127. In 2019 ESMA will also work on further promoting supervisory convergence in the area of corporate reporting by discussing potential Changes to GLEFI and developing supervisory briefing(s) on particular issues stemming from the GLEFI Peer Review.

128. Please find the detailed steps that ESMA plans to take in this respect in ESMA's Supervisory Convergence Work Programme for 2019[34].

4 Single rulebook

4.1. Contribution to accounting standard setting

4.1.1. Contribution to the European endorsement process

129. In 2018 ESMA continued to be actively involved in EFRAG's work by participating as official observer in the activities of EFRAG's Board, EFRAG's Technical Expert Group and EFRAG working groups, where ESMA presented its views on enforceability of standards and shared the experience of European enforcers on the application of IFRS in Europe. Furthermore, ESMA continued to contribute actively to the European endorsement process by participating as an official observer in the Accounting Regulatory Committee.

130. ESMA published two letters providing feedback on the EFRAG's draft comment letters addressing the IASB exposure draft on proposed amendments to IAS 8[35] and the IASB discussion paper (DP) on Financial Instruments with Characteristics of Equity (FICE).[36] ESMA also contributed to the consultation on EFRAG's DP Equity Instruments – Impairment and Recycling[37] in order to respond to the request for technical advice from the EC on the accounting treatment of equity instruments from a long term perspective. ESMA argued, as in the past, that IFRS 9 strikes the appropriate trade-off between reporting the underlying economic volatility of financial instruments and transparency of economic performance and warned against casting doubt on the

[34] ESMA42-114-647 – *Supervisory Convergence Work Programme 2019*, pages 16, 33-34, 6 February 2019
[35] ESMA32-61-270 – *Letter to EFRAG on IASB ED on proposed amendments to IAS 8*, 26 June 2018
[36] ESMA32-61-290 – *Letter to EFRAG on IASB Discussion Paper on FICE*, 20 December 2018
[37] ESMA 32-61-259 – *Letter to EFRAG on DP Equity instruments impairment and recycling*, 28 May 2018

relevance of the information prepared in accordance with IFRS 9 in this early phase of application of the standard.

131. In addition, as part of the joint work with the other ESAs, ESMA Chair also co-signed with EIOPA's and EBA's respective Chairs a letter[38] expressing concerns with respect to the transparency of the decision-making process and urging for the timely completion of endorsement of the new accounting standard for insurance contracts, IFRS 17 *Insurance Contracts*.

132. Beyond its regular contribution to the European endorsement process, in response to the EC Consultation Document seeking feedback to evaluate the Fitness of the European Union (EU) framework for public reporting by companies (Fitness Check), in July 2018 ESMA reiterated its support for the existing endorsement process, which ESMA and European enforcers strongly believe that is appropriate and can accommodate further developments related to other EU policy objectives such as sustainability and long-term investments. In particular, ESMA expressed very strongly disagreement with the introduction of the possibility to modify the content of IFRS as issued by the IASB (a mechanism known as 'carve-in') and cautioned against the inclusion of considerations on sustainability as part of the endorsement criteria of IFRS. In ESMA's view, any European-specific adjustments to IFRS would defy one of the key objectives of the IAS Regulation, namely that financial reporting standards applied by listed issuers are accepted internationally and are truly global standards. On the contrary, the EU should show leadership in reaffirming its commitment to IFRS. This, in turn, would increase its ability to influence the development of IFRS, which the EU should continue to actively do as part of the IASB's due process. ESMA's position to this and other issues raised in the Consultation are publically available[39] and are summarised in the accompanying letter sent to the EC.[40]

4.1.2. Cooperation with the IASB

133. Further to the signature in 2016 of the updated Statement of Protocols between ESMA and the IFRS Foundation to deepen the cooperation of the two organisations, in 2018 ESMA continued to participate as a member in the IFRS Advisory Council.[41.] Through this involvement, ESMA gives its opinion on the strategic direction of the IFRS Foundation.

134. In addition, an ESMA permanent working group composed of IFRS experts from 14 different European enforcers together with ESMA staff, met regularly to discuss major accounting projects. In 2018, ESMA submitted two letters to the IASB providing feedback on the ED and DP already mentioned in Paragraph 130.

135. Furthermore, EECS met twice with representatives of IASB and IFRS IC in order to discuss complex issues identified by European enforcers for which there was

[38] ESAs 2018 23 Letter – *Endorsement process of IFRS 17 Insurance Contracts ESAs Chairs*, 18 October 2018

[39] ESMA 32-51-522 – *ESMA response to the EC consultation on the fitness check on the EU framework for public reporting by companies*, 17 July 2018

[40] ESMA32-51-541 – *Letter to the EC on Fitness check on public reporting*, 17 July 2018

[41] The IFRS Advisory Council is the formal advisory body to the Board and Trustees of the IFRS Foundation.

no specific IFRS guidance or where widely diverging interpretations appeared to exist. Among others, accounting subjects such as the presentation of revenue in the Income Statement. Whenever relevant, these discussions are taken into consideration by European enforcers when carrying out enforcement activity. Statement and implementation issues related to IFRS 15, IFRS 16 and IFRS were discussed.

136. Finally, while not an official observer to the IFRS IC, ESMA contributed to the IFRS IC work by identifying and submitting as an agenda item request an issue related to the interpretation of IAS 19 *Employee Benefits*[42] in the area of the definition of defined contribution and defined benefit pension plan.

137. Two additional bilateral meetings of ESMA and IASB representatives were held in which ESMA provided IASB Board members and staff with an overview of recent enforcement activities and discussed matters in relation to enforceability of the standards. Furthermore, other important topics were also discussed, such as the implementation issues identified as part of the reviews of accounting practices undertaken by ESMA and the promotion of consistent application of IFRS across Europe.

4.2. Activities related to the amended Transparency Directive

138. Following publication of the Final Report on the Regulatory Technical Standard (RTS) on the European Single Electronic Reporting Format (ESEF)[43], which specifies the electronic format for the preparation of annual financial reports starting from 2020[44], in 2018 ESMA engaged in a number of initiatives to support implementation of the ESEF, ranging from communication efforts, to addressing the concerns of a number of stakeholders including most notably double listed issuers filing in XBRL to the US Securities and Exchange Commission (SEC), to support to the EC in its assessment and translation of the RTS, and so forth.

139. Notably, ESMA engaged in an extensive outreach aimed at informing all relevant market participants of the requirements contained in the draft RTS on ESEF, by organising and taking part in a number of workshops across Europe aimed at engaging directly with preparers, auditors, software vendors, OAMs and other relevant interlocutors. This initiative also featured the publication of the first of a series of video tutorials on ESEF.[45]

140. On 17 December 2018, the EC finally gave its green light on endorsement of the RTS on ESEF. The EC's legislative proposal (delegated act) will be subject over the first half of 2019 to the right of the European Parliament and of the Council to express objections, following which ESMA expects that, if no objections are raised, the

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[42] ESMA 32-63-566 – *Letter to IFRS IC on IAS 19*, 22 November 2018
[43] ESMA32-60-204 – *Final Report on the RTS on the European Single Electronic Format*, 18 December 2017
[44] All annual financial reports shall be prepared in the Extensible Hyper Text Markup Language (XHTML) format. Where annual financial reports contain consolidated financial statements drawn up in accordance with IFRS, the issuer shall label the information contained therein using Extensible Business Reporting Language (XBRL). Issuers shall embed the XBRL data directly into the XHTML documents through a format known as Inline XBRL.
[45] ESE 2020 – ESMA Tutorial available here, 19 November 2018.

text will enter into force upon Publication in the Official Journal.

4.3. Activities related to the Audit Regulation

141. In 2018, ESMA has continued to actively participate as a member, without voting rights, in the Committee of the European Audit Oversight Bodies (CEAOB) contributing by providing the securities regulator perspective. ESMA has contributed to the running of the CEAOB sub-groups and in particular the one chaired by ESMA on equivalence assessments of public oversight systems of third countries and facilitating the international cooperation between Member States and third countries in this area. In 2018, this sub-group focused on the dialogue with the audit oversight authorities of third-countries for the equivalence and adequacy assessment. Such work is expected to progress further in 2019. For more Information, please refer to the CEAOB Annual report.

142. ESMA furthermore continuously monitors relevant developments in the auditing area. In 2018, ESMA has responded to the Monitoring Group's consultation on Strengthening the Governance and Oversight of International Audit-related Standard-setting Boards (IAASB) in the Public Interest.[46]

4.4. International cooperation

143. In 2018 ESMA continued to maintain regular contact with other IFRS enforcers across the world with the aim of exchanging practical experience on IFRS enforcement.

144. As part of the common objectives of promoting high quality and consistent application of financial reporting standards and avoiding conflicting regulatory decisions on the application of both IFRS and US GAAP, ESMA and the US SEC cooperate and have regular dialogue since 2006. Areas of common interest or concern are the application of converged accounting standards, enforcement related issues, electronic reporting, accounting areas of concern in relation to foreign private issuers and other matters related to issuers or market behaviour.

4.5. Work Programme for 2019

145. In accordance with ESMA's Annual Work Programme for 2019 in the area of single rulebook, in the coming year ESMA will continue to actively contribute to the accounting standard setting and endorsement in the EU through its observership at the EFRAG Supervisory Board and Technical Expert Group and its relationship with the IASB. Where relevant, ESMA will continue to provide feedback to EFRAG and IASB on their respective pronouncements. In 2019, ESMA will continue to closely monitor and contribute to the endorsement process of the new accounting standard on insurance, IFRS 17 *Insurance Contracts* and other major projects expected from the

[46] ESMA32-67-453 – *Monitoring Group Consultation*, 2 February 2018

IASB.

146. In the audit area, ESMA will continue providing its views on relevant International Standards on Auditing and continue to coordinate the work in relation to the recognition of equivalence and adequacy decision for third countries by participating in the CEAOB.

147. With regards to electronic reporting, ESMA plans to support the market in the implementation of the requirements of the RTS on ESEF in order to ensure a consistent and effective transition to electronic reporting in Europe starting in 2020, and to work closely with NCAs to deal with the emerging need for convergence on supervision of electronic reporting.

Appendix I – Description of the enforcement process

1. ESMA is responsible for the promotion of an effective and consistent application of the securities and markets legislation with respect to financial reporting, it aims to foster supervisory convergence in Europe and thereby reduce regulatory arbitrage. Converged enforcement practices contribute not only to the integrity, efficiency and orderly functioning of the EU Single Market, but can also have positive impact on financial stability.

Guidelines on enforcement of financial information

2. On the basis of Article 16 of ESMA Regulation, in 2014, ESMA published the GLEFI (ESMA/2014/1293), aiming at strengthening the supervisory convergence in the enforcement practices amongst the competent authorities designated in each Member State and/or in some cases by other entities which have received a delegation for this purpose.[47]

3. Compliance with the GLEFI implies that all competent authorities confirm in writing to ESMA whether they (a) comply; (b) intend to comply; or (c) do not comply or do not intend to comply with the Guidelines. Twenty five countries indicated to ESMA that they comply, one country that intends to comply by a particular date and five countries that they do not comply and do not intend to comply with part of the GLEFI because of conflicts with existing national legislation or lack of resources. The compliance table on ESMA's website[48] will be updated accordingly as soon as possible.

4. The GLEFI define the objectives of enforcement, the characteristics of European enforcers and set out the principles to be followed throughout the enforcement process, such as selection methods, examination procedures and enforcement actions. They also strengthen the convergence of enforcement activities at European level by codifying ECEP and including requirements for coordination of views on accounting matters prior to taking significant enforcement decisions at national level.

5. The scope of enforcement of financial information of companies that issued securities admitted to trading on the regulated markets, as defined under the Transparency Directive, covers all reporting frameworks applicable to listed issuers. This includes IFRS as endorsed by the EU for consolidated financial statements, IFRS as endorsed by the EU or national GAAPs when applied to non-consolidated financial statements and third country accounting standards for non-European issuers, if deemed equivalent to IFRS as endorsed in the EU. However, the main areas of focus for ESMA are in relation to issues derived from the requirements of the Transparency Directive in relation to the application of the IAS Regulation.

6. ESMA activities on supervisory convergence of enforcement are carried out mainly through the EECS, a forum of 42 European enforcers from EEA Member States who have responsibilities in the area of supervision and enforcement of financial information. With responsibility for co-ordination of supervision of approximately 6,000

[47] List of European enforcers is included in Appendix II.
[48] ESMA32-67-142, Guidelines compliance table – *Guidelines on the enforcement of financial information*

issuers listed on European regulated markets preparing IFRS financial statements, EECS currently constitutes the largest regional enforcers' network with supervision responsibilities for IFRS.

7. According to Guideline 10, through EECS, European enforcers discuss and share their experience on the application and enforcement of IFRS. In particular, they discuss enforcement cases, which fulfil the submission criterion, set out in the GLEFI before or after decisions are taken in order to promote a consistent approach in the application of IFRS.

8. ESMA has a coordination role to facilitate analysis and discussion of enforcement issues regarding IFRS financial statements in the European Enforcers' Coordination Sessions. EECS discussions offer an opportunity to benefit from the experience of other enforcers who already encountered similar issues, and to gather useful input for the analysis of technical issues. When time constraints do not allow waiting until the next EECS physical meeting (eight meetings took place in 2018) to discuss an emerging issue, they can be discussed in ad-hoc conference calls or through written procedure. When taking an enforcement decision, European enforcers should take into account the outcome of previous discussions in EECS. From the discussions of emerging issues and decisions, ESMA gains a sense of the application of IFRS in Europe and of the main topics which pose challenges to issuers.

9. In addition, EECS produces technical advice on the issuance of ESMA Statements and/or opinions on accounting matters, which deserve specific focus. It also reviews accounting practices applied by European issuers to enable ESMA to monitor market developments and changes in those practices.

10. Because of the enforcement coordination, ESMA and European enforcers identify areas where a lack of guidance from the standards or divergent interpretations of the IFRS are observed. Such matters are subsequently referred to the IASB or the IFRS IC, as appropriate.

Key definitions and Concepts

11. Enforcement activity refers to examining compliance of financial information with the applicable financial reporting framework as well as taking appropriate measures when infringements are identified.

12. European enforcers identify the most effective way for enforcement of financial information. The enforcer's selection of issuers for examination is based on a mixed model whereby a risk-based approach is combined with a sampling and/or a rotation. A risk-based approach considers the risk of a misstatement as well as the impact of a misstatement on the financial markets. Enforcers can use either unlimited scope examination or a combination of unlimited scope and focused examinations of financial information of issuers selected for enforcement.

13. Unlimited scope examination entails the evaluation of the entire content of the financial information, while focused examination refer to the evaluation of pre-defined issues in

the financial information and the assessment of whether this information is compliant with the relevant financial reporting framework. However, the depth and scope of an examination procedure cannot be equated with those of an audit of financial statements.

14. Whenever a material misstatement is detected, European enforcers should, in a timely manner, take at least one of the following actions:

- Require a reissuance of the financial statements – issuance of revised financial statements which are subject to a new audit opinion;

- Require a corrective note – making public either by the issuer or the enforcer a material misstatement with respect to particular item(s) included in already published financial information and the corrected information; or

- Require correction in future financial statements with restatement of comparatives, where relevant – the issuer adopts an acceptable treatment in the next accounts and corrects the prior year by restating the comparative amounts or otherwise includes additional disclosures not requiring the restatement of comparatives.

15. When deciding between the type of action to be applied, European enforcers should consider that the final objective is that investors are provided with the best possible information and an assessment should be made whether the original financial statements and a corrective note provide users with sufficient clarity for taking decisions or whether a reissuance of the financial statements is more appropriate. Other factors should also be considered, namely timing, nature of the decision and the surrounding circumstances.

16. Furthermore, European enforcers seek to improve the quality of future financial statements, by engaging in activities designed to provide helpful guidance to issuers, such as defining enforcement priorities and/or pre-clearance procedure.[49]

[49] In some jurisdictions, issuers may approach a local enforcer before finalising their financial statements and seek a formal advice on whether a proposed accounting treatment is compliant with IFRS.

Appendix II – List of European enforcers as of 31/12/2018

Member State	European enforcer	Abbreviation
Austria	Financial Market Authority Austrian Financial Reporting Enforcement Panel	FMA AFREP
Belgium	Financial Services and Markets Authority	FSMA
Bulgaria	Financial Supervision Commission	FSC
Croatia	Croatian Financial Services Supervisory Agency Croatian National Bank Ministry of Finance -Tax Administration	HANFA HNB RHMF
Cyprus	Cyprus Securities and Exchange Commission	CySEC
Czech Republic	Czech National Bank	CNB
Denmark	Danish Financial Services Authority Danish Business Authority	Danish FSA DBA
Estonia	Estonian Financial Supervision Authority	EFSA
Finland	Finnish Financial Supervisory Authority	FIN-FSA
France	Financial Markets Authority	AMF
Germany	Federal Financial Supervisory Authority Financial Reporting Enforcement Panel	BaFin FREP
Greece	Hellenic Capital Market Commission	HCMC
Hungary	The Central Bank of Hungary	MNB
Ireland	Central Bank of Ireland[50] Irish Auditing and Accounting Supervisory Authority	CBI IAASA
Iceland	Financial Supervisory Authority	FME
Italy	Companies and Securities National Commission	Consob
Latvia	Financial and Capital Markets Commission	FCMC
Lichtenstein	Liechtenstein Financial Market Authority	LFMA
Lithuania	Bank of Lithuania	LB
Luxembourg	Financial Markets Supervisory Commission	CSSF
Malta	Malta Financial Services Authority	MFSA
Netherlands	Netherlands Authority for the Financial Markets	AFM
Norway	Norway Financial Supervisory Authority	NFSA
Poland	Polish Financial Supervision Authority	PFSA
Portugal	Securities National Commission Bank of Portugal Insurance and Pension Funds Supervisory Authority	CMVM BP IPFSA
Romania	Financial Supervisory Authority	ASF
Slovakia	National Bank of Slovakia	NBS
Slovenia	Securities Market Agency	SMA
Spain	Spanish Securities Market Commission	CNMV
Sweden	Swedish Financial Supervisory Authority Nordic Growth Market NGM AB[51] Nasdaq Stockholm AB	Swedish FSA NGM AB Nasdaq Stockholm
United Kingdom	Financial Conduct Authority Financial Reporting Council	FCA FRC

[50] While CBI is the national administrative competent authority represented in ESMA Board of Supervisors, IAASA was designated as the sole competent authority for carrying out the obligations in the Transparency Directive.
[51] Nordic Growth Market NGM AB and Nasdaq Stockholm AB were European enforcers until 31 December 2018. Following change in Swedish law, the Swedish FSA remains the NCA for the purposes of the TD but as of 9 January 2019 certain activities related to enforcement of financial information are delegated to a new *Nämnden för svensk redovisningstillsyn*.

Appendix III – Number of IFRS issuers per country (2017 and 2018 year-end)

Country	Consolidated IFRS-Financial statements				Non-consolidated IFRS-Financial statements		TOTAL IFRS issuers	
	Equity issuers		Bonds and securitised debt issuers					
	2017	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*
Austria	57	55	35	29	0	0	92	84
Belgium	115	113	3	2	0	0	118	115
Bulgaria	106	111	20	17	229	183	355	311
Croatia	78	77	7	7	55	51	140	135
Cyprus	68	61	0	0	18	17	86	78
Czech Republic	23	22	11	10	28	28	62	60
Denmark	118	126	20	23	0	0	138	149
Estonia	19	19	2	3	1	2	22	24
Finland	125	125	20	18	0	0	145	143
France	489	445	31	31	1	2	521	478
Germany	399	392	21	19	4	4	424	415
Greece	153	139	2	4	39	40	194	183
Hungary	31	32	6	3	11	14	48	49
Iceland[52]	16	16	33	33	16	16	65	65
Ireland	31	31	8	6	56	55	95	92
Italy	225	229	9	7	15	12	249	248
Latvia	10	7	10	8	7	5	27	20
Lithuania	30	28	1	2	6	6	37	36
Luxembourg	45	43	20	20	71	59	136	122
Malta	18	19	10	14	20	22	48	55
Netherlands	139	134	14	15	25	29	178	178
Norway	178	179	46	55	28	26	252	260
Poland	356	347	0	1	45	41	401	389
Portugal	43	41	9	9	7	4	59	54
Romania[53]	39	39	3	3	50	50	92	92
Slovakia	13	13	6	6	8	9	27	28
Slovenia	29	25	8	7	0	0	37	32
Spain	133	133	6	6	0	0	139	139
Sweden	313	327	23	29	10	14	343	370
UK	1073	1062	242	242	0	0	1315	1304
Total	**4472**	**4390**	**631**	**629**	**750**	**689**	**5853**	**5708**

[52] 2018 numbers not available
[53] 2018 numbers not available

Appendix IV – Number of examinations per country of IFRS financial statements

1. The table below presents the number of examinations performed by European enforcers on the basis of the GLEFI. Please note that this data only includes examinations that were concluded in the year 2018.[54] Examinations that are not concluded by the end of 2018 will be included in next year report. However, it needs to be highlighted that various factors may restrict comparability of the numbers disclosed.

2. For instance, whilst all NCAs examine ex-post annual consolidated financial statements drawn up in accordance with the IFRS on the basis of Guideline 6, it is worth highlighting that:

   a. Some NCAs do not examine annual separate financial statements or interim consolidated financial statements;
   b. Some NCA can perform pre-clearances and therefore review financial statements *ex-ante* on the basis of Guideline 4;
   c. Some NCAs apply the GLEFI on a voluntary basis for the review at financial statements contained in IPO prospectuses.[55]

3. Furthermore, it is important to highlight that examination procedures across jurisdictions depend on the facts and circumstances (type of issuer and complexity of financial statements, type of examination, issues raised, powers at the disposal of the authorities, time constraints, resources available and allocation of such resources, etc).

4. For instance, whilst all Enforcers strive to contribute to the improvement of the quality of financial reporting, the activities they undertake to achieve this objective may include also thematic reviews, providing assistance to other regulatory tasks (for example, the review of press releases), activities in relation to new developments and regulations (such as the ESEF), and so forth.

5. As another example, although the Guidelines provide definitions of ‘unlimited scope examination’ and ‘focused examination’, they allow a certain degree of flexibility in application. The experience of the Peer Review has shown that those instruments are not applied in the same manner by all NCAs, and procedures in place remain not fully comparable. Indeed some NCAs limit their examination procedures to the review of disclosures; others focus mainly on measurement and recognition issues. Some consider that unlimited scope examinations should require interaction with issuers, where others do not. Whilst ESMA and NCAs are continuing to work to further refine the definitions and align their interpretation (see Section 3.9 above), readers are invited to keep these considerations in mind when analysing the data disclosed.

6. For the purpose of table below, examinations were included only if carried out on the

[54] Please note that the data could therefore include the review of financial statements prior to 2017 if the examination was concluded during 2018

[55] Please note that the majority of NCAs review financial statements contained in prospectus in the wider context of the procedures to approve prospectuses set out by the Prospectus Regulation, and therefore not on the basis of the GLEFI. Such examinations are not taken into account for the purpose of this Report.

basis of:

- GLEFI Guideline 4 for preclearance examinations.
- GLEFI Guideline 6 for financial statements in financial reports or prospectus examinations (IPOs and first time admission to trading).[56]

7. Please note that numbers in the table below are not fully comparable with the less aggregated tables published in past years' Annual Reports on Enforcement nor with the tables published in the Peer Review report, since the criteria and definitions of reporting to ESMA for NCAs have evolved since those publications.

Country	Total Examinations	*Disaggregation by type*		*Disaggregation by nature*		
		Unlimited	*Focused*	*Ex-post*	*Financial Statements contained in IPO*	*Pre-clearance*
Austria	**28**	23	5	24		4
Belgium	**19**	13	6	18		1
Bulgaria	**19**	18	1	19		
Cyprus	**10**	2	8	10		
Czech Republic	**8**	8		8		
Denmark	**27**	23	4	24		3
Estonia	**23**	21	2	21	2	
Finland	**29**	17	12	25	4	
France	**83**	69	14	72	7	4
Germany	**71**	68	3	71		
Greece	**17**	8	9	15	2	
Hungary	**4**	2	2	2	2	
Ireland	**21**	14	7	21		
Italy	**67**	35	32	61	6	
Latvia	**6**	6		3	3	
Lithuania	**13**	8	5	8	5	
Luxembourg	**58**	29	29	57	1	
Malta	**18**	2	16	18		
Netherlands	**25**	8	17	25		
Norway	**29**	18	11	20	9	
Poland	**76**	36	40	71	5	
Portugal	**5**	2	3	5		
Romania	**13**	6	7	13		
Slovakia	**27**	18	9	27		
Slovenia	**5**	5		5		
Spain	**46**	21	25	42	4	
Sweden	**95**	59	36	95		
UK	**105**	73	32	105		
Total examinations	**947**	612	335	885	50	12

8. Empty cells indicate either that the enforcer chose not to carry out such type of examination or to apply the GLEFI to certain types of procedures, or that the national legislation does not foresee such type of examination.

[56] As for prospectuses, please note that if the issuer's listing was not eventually successful, even if the financial information contained therein have been reviewed, the examination has not been counted (as we only count financial statements of issuers).

Appendix V – Number of IFRS issuers for which action was taken per country

1. The table below lists the number of actions performed over the year 2018 falling under the categories defined by the GLEFI, namely reissuance of the financial statement, issuance of a corrective note and corrections in future financial statements.[57]

Country	Reissuance of finan-cial statements	Public corrective note	Correction in future financial statements	Total[58]
Austria		5		**5**
Belgium		1	9	**10**
Bulgaria		1		**1**
Cyprus		1	2	**3**
Czech Republic		2	6	**8**
Denmark		6	11	**17**
Estonia				**0**
Finland			14	**14**
France			46	**46**
Germany		9		**9**
Greece			10	**10**
Hungary			1	**1**
Ireland		8	10	**18**
Italy		7		**7**
Latvia		1		**1**
Lithuania			5	**5**
Luxembourg			18	**18**
Malta			6	**6**
Netherlands	1		1	**2**
Norway		2	3	**5**
Poland	5		18	**23**
Portugal			2	**2**
Romania			1	**1**
Slovak Republic				**0**
Slovenia				**0**
Spain		15	7	**22**
Sweden			14	**14**
United Kingdom			48	**48**
Total actions	6	58	232	296

2. It needs to be highlighted that comparability of the numbers disclosed is restricted by the fact that the use of different actions is not fully harmonised in the EEA. For example,

[57] Please note that for the purpose of the statistics disclosed, action is defined on the level of an issuer. Therefore, if more than one action was taken for an issuer, it was only counted once (the most severe action only).
[58] Caution should be exercised when interpreting this data and the potentially resulting action rates, which may not be compara-ble across jurisdictions in light of the factors described in this Appendix, Paragraphs 2 and 3.

the legal powers of the NCAs to use specific actions differ on the basis of applicable national law. Furthermore, the GLEFI allow a certain degree of flexibility in application (see Paragraphs 14 and 15 of Appendix I).

3. Empty cells indicate either that the enforcer chose not to carry out such type of action or that the national legislation does not foresee that such action can be carried out.

4. Please note that actions relate to ex-post examinations only and thus do not include preclearances and examinations of financial statements contained in prospectuses, which, by their nature, cannot result in the actions defined by the GLEFI.