29 March 2023
ESMA32-63-1385

Report

2022 Corporate reporting enforcement and regulatory activities

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Abbreviations and acronyms

AFR	Annual Financial Report
APM	Alternative Performance Measure
CESR	Committee of European Securities Regulators
Commission	European Commission
COVID-19	Coronavirus Disease 2019
CRSC	Corporate Reporting Standing Committee
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
Enforcers	National Enforcers in the European Economic Area
ESEF	European Single Electronic Format
ESG	Environmental, Social and Governance
ESMA	European Securities and Market Authority
EU	European Union
FLI	Forward-looking Information
GAAP	Generally Accepted Accounting Principles
GLEFI	Guidelines on Enforcement of Financial Information
GRI	Global Reporting Initiative
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IFRS IC	International Financial Reporting Standards Interpretations Committee
IOSCO	International Organization of Securities Commissions

IPO	Initial Public Offering
IT	Information Technology
iXBRL	Inline eXtensible Business Reporting Language
KPI	Key Performance Indicator
Issuer	Legal entity whose securities are admitted to trading on EEA regulated markets
NCA	National Competent Authority
NRWG	Narrative Reporting Working Group
OAM	Officially Appointed Mechanisms
PIR	Post-implementation Review
Q&A	Questions and Answers
RTS	Regulatory Technical Standards
SICR	Significant Increase in Credit Risk
ISSB	International Sustainability Standards Board
TR	Taxonomy Regulation
US SEC	United States Securities and Exchange Commission
XHTML	Extensible HyperText Markup Language

Legislative references

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 (as amended)
Audit Directive	Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC
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
Corporate Sustainability Reporting Directive (CSRD)	Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting
ESEF Regulation	Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (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 (as amended)
General Data Protection Regulation / GDPR	Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/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 Reporting Directive / NFRD	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
Prospectus Regulation	Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC (as amended)
Sustainable Finance Disclosure Regulation / SFDR	Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector
Taxonomy Regulation	Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088
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 (as amended)

1 Executive summary

This report provides an overview of the activities of ESMA and of national enforcers in the European Economic Area (EEA), hereafter enforcers, when examining compliance of financial and non-financial information provided by issuers in 2022. It furthermore presents the main activities contributing to supervisory convergence performed at European level and quantitative information on enforcement activities in Europe.

Enforcement of financial reporting

Enforcement of IFRS reporting

Enforcers undertook 640 examinations (711 in 2021) of financial statements drawn up in accordance with International Financial Reporting Standards (IFRS), constituting an examination rate of 16% of issuers whose securities are admitted to trading on European regulated markets (referred to as issuers for the remainder of the report) that prepared financial statements in accordance with IFRS (the 2021 examination rate was 17%).

Of the 640 examinations undertaken, 600 were classified as ex-post examinations (619 in 2021). Based on these examinations, enforcers took enforcement actions against 225 issuers (250 in 2021) to address material departures from IFRS. This represents an action rate of 38% (the 2021 action rate was 40%).[1] The action rate in relation to recognition and measurement infringements is 13% (12% in 2021), while the action rate regarding infringements with respect to disclosures represents 25% (28% in 2021). As in the past, most shortcomings were identified in the areas of accounting for financial instruments, impairment of non-financial assets, presentation of financial statements and revenue recognition. Material departures from IFRS were assessed in relation to recognition and/or measurement and presentation of assets and liabilities, as well as to related disclosures since the concept of materiality is pervasive to the financial statements as a whole. In particular, if it could be reasonably expected that omitting, obscuring, or misstating material information in the notes could influence decisions that primary users of the financial statements make on the basis of those financial statements. Section 3.2.1.1 provides further guidance on how materiality is considered by enforcers in their work and for the purpose of this report.

To assess the extent to which issuers took into account ESMA's European Common Enforcement Priorities Statement (ECEP) for 2021 year-end IFRS financial statements, during 2022 enforcers examined whether a sample of 171 issuers adhered with the recommendations highlighted in the ECEP. Among the key findings of the assessment of compliance with the 2021 ECEP related to financial statements are that:

- There is significant room for improvement in disclosures of climate-related matters by issuers in their financial statements,

[1] Action rate relates to a sample of issuers which were selected using an approach which, amongst others, considers the risk of misstatement. Therefore, the action rate is not representative of the total population of issuers.

- Although enforcers identified only a few material departures from IFRS, there is still room for improvement in the level of transparency in the application of requirements related to ECL, and
- Issuers generally took ESMA's recommendations on COVID-19 into consideration in an appropriate manner.

In relation to the 2021 enforcement priorities, examinations led to 10 enforcement actions being taken, while 39 examinations were still open at the end of 2022. In addition, in a considerable number of cases, enforcers recommended issuers to improve disclosures, but these recommendations were not considered as actions (as no material departures from the standards were identified). In light of the shortcomings arising from the 2021 ECEP assessment, ESMA and enforcers are committed to engage with auditors, issuers and audit committees in order to improve the quality of information regarding the 2021 ECEP provided to investors.

As in previous years, to ensure supervisory convergence in the area of accounting enforcement, enforcers submitted a number of issues to the European Enforcers Coordination Sessions (EECS) during 2022 – 32 emerging issues and 37 decisions (slightly lower compared to 2021).

In addition to the recurring activities summarised above, ESMA undertook a number of other activities during 2022 to promote the effective and consistent application of IFRS. ESMA, in particular, published a follow-up report with an update on the actions that some national enforcers have undertaken to address the recommendations formulated in the 2017 peer review report on enforcers' compliance with some of the Guidelines on Enforcement of Financial Information (GLEFI). ESMA also published two statements. One statement addressed the implications of Russia's invasion of Ukraine on half-yearly financial reports. Another statement promoted consistent application and high-quality implementation by issuers of IFRS 17 *Insurance Contracts*.

Over the course of 2022, ESMA continued to actively participate in the accounting standard-setting process by providing the views of enforcers on all relevant projects of the International Accounting Standards Board (IASB), mainly through comment letters, and by contributing, as an observer, to the discussions in the Financial Reporting Board and Financial Reporting Technical Expert Group (FR TEG) of the European Financial Reporting Advisory Group (EFRAG). As part of these activities, ESMA provided feedback on EFRAG's draft comment letters addressing the IASB exposure drafts, with a particular focus on improving the decision-usefulness and transparency of financial information as well as the enforceability of IFRS. Furthermore, ESMA submitted a letter on the IASB's Request for Information on the Post-implementation Review (PIR) of IFRS 9 *Classification and Measurement*. Additionally, ESMA contributed to the IFRS Interpretations Committee (IFRS IC) work by submitting a comment letter on a committee's tentative agenda decision.

Enforcement of APM reporting

Regarding alternative performance measures (APMs), enforcers examined 521 management reports to assess compliance with ESMA's APM Guidelines, representing 13% of all IFRS listed issuers in Europe. Based on these examinations, enforcement actions were taken in relation to 89 issuers, constituting an action rate of 17%.

Enforcement of non-financial reporting

In 2022, enforcers examined 403 issuers (711 in 2021) for the purpose of assessing the disclosures in the non-financial statements prepared in accordance with Articles 19a and 29a of the Accounting Directive, representing 18% of the total estimated number of listed issuers [2] required to publish a non-financial statement (36% in 2021). In case of infringements, enforcers followed up with issuers by taking actions within the meaning of ESMA's GLEFI (100) which represents an action rate of 25% (10% in 2021).

Enforcers furthermore assessed the extent to which European issuers had taken account of ESMA's recommendations on non-financial disclosures in the 2021 ECEP (notably relating to the impacts of the COVID-19 pandemic on sustainability-related goals and non-financial key performance indicators, climate-related policies and their outcomes, and preparations for disclosure requirements related to Article 8 of the Taxonomy Regulation, in force as of 1 January 2022). To this end, the non-financial statements of 113 issuers were examined, leading to enforcement actions towards issuers who did not comply with the requirements highlighted in the ECEP relating to 17 infringements. 12 examinations in relation to the 2021 enforcement priorities were still ongoing at the end of 2022. Among the key findings of the assessment of compliance with the 2021 ECEP related to non-financial statements are that:

- Significant improvements are still needed in climate-related disclosures,
- Undertakings still need to take steps to ensure a good level of preparedness for alignment reporting related to Article 8 of the Taxonomy Regulation, and
- Aspects of the consequences of COVID-19 on non-financial matters are discussed, but disclosures are incomplete regarding the impact of the pandemic on sustainability-related goals.

Through its observership on the EFRAG Sustainability Reporting Board and Technical Expert Group, ESMA actively contributed to the standard-setting process of the European Commission on European Sustainability Reporting Standards (ESRS), in preparation for the opinion on the first set of the new standards which ESMA – as well as the other European Supervisory Authorities – is required by the Corporate Sustainability Reporting Directive (CSRD) to provide to the European Commission. ESMA monitored the development of the future ESRS and provided its views from an enforcement perspective, notably to ensure that the proposed requirements are conducive to investor protection, do not undermine financial stability and are aligned with relevant EU sustainable finance legislation and with international standard-setting.

European Single Electronic Format (ESEF) reporting

For financial years beginning on or after 1 January 2021, issuers must prepare their annual financial reports according to Extensible HyperText Markup Language (XHTML) requirements and mark-up those IFRS consolidated financial statements contained therein according to Inline eXtensible Business Reporting Language (iXBRL) requirements. Most enforcers have implemented IT tools to perform automatic examinations on IT requirements covering half of issuers. In addition, enforcers have performed 2,423 Transparency Directive high level examinations (approximately 56% of all issuers) which focus on IT requirements commonly applicable to all issuers. Enforcers have also performed 1,077 ESEF RTS granular requirements examinations (approximately 25% of all issuers), which focus on detailed IT and accounting requirements applicable to those issuers preparing financial statements with iXBRL mark-ups. Enforcement actions were taken in relation to 252 issuers (action rate of 10%) for Transparency Directive high level examinations, and to 39 issuers (action rate of 4%) for ESEF RTS granular requirements examinations.

ESMA also undertook a number of activities in the area of electronic reporting by delivering an update to the ESEF RTS reflecting the latest available version of the IFRS taxonomy and updating the corresponding XBRL taxonomy files and Conformance Suite test files to ease preparations on the 2022 consolidated financial statements with the latest version of the ESEF format. ESMA also published an update to ESMA's ESEF Reporting Manual providing guidance on the new applicable ESEF block tagging requirements.

[2] When excluding examinations related to checking only whether the non-financial statement had been prepared ("existence only"), the examination rate is 15%.

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 2022 by the national enforcers in the European Economic Area (EEA – hereafter referred to as enforcers)[3] and by ESMA.

2. The main objectives of the report are to:

   - Provide overarching messages to issuers and auditors to improve future financial and non-financial reports by assessing how issuers comply with IFRS and non-financial reporting obligations, and adhere to ESMA's recommendations, including the European Common Enforcement Priorities (ECEP),

   - Provide an overview of the activities carried out by ESMA and enforcers in the area of financial and non-financial information to promote transparency and accountability to the market.

3. The report is structured around separate presentations of enforcement activities in relation to financial reporting, which includes IFRS reporting and APM reporting and to non-financial reporting.[4] Additionally, a separate section is dedicated to ESEF reporting.

4. This report mainly focuses on enforcement and regulatory activities related to issuers whose securities are admitted to trading on regulated markets (referred to as listed issuers for the remainder of the report). As such, the report does not cover all enforcement and regulatory activities undertaken by enforcers.

5. The main addressees of the report are issuers (e.g., issuers' management as well as administrative and supervisory bodies, including audit committees), auditors and other professionals working in the field of corporate reporting who are already familiar with the work of ESMA and national enforcers and with the underlying reporting requirements.

[3] Please refer to Annex 1 for a list of the enforcers.
[4] The term "non-financial reporting" used in this report refers to the disclosure of non-financial information under Articles 19a and 29a of the Accounting Directive.

3 Enforcement of financial reporting

6. This section describes the main activities carried out by enforcers and by ESMA during 2022 regarding financial reporting. The main focus of ESMA's enforcement activity in this area is on the requirements of the Transparency Directive (Directive 2004/109/EC) in relation to the application of the IAS Regulation (Regulation (EC) No 1606/2002) and as such, on issues related to IFRS as endorsed by the EU (IFRS reporting, see section 3.2). In addition, this section presents the enforcement activities regarding alternative performance measures (APMs), which are disclosed outside IFRS financial statements but in documents within the scope of regulated information, such as management reports prepared in accordance with the Transparency Directive (see section 3.3).

3.1 Number of issuers under enforcement

7. At the end of 2022, approximately 4,100 issuers preparing IFRS financial statements were admitted to trading on a regulated market, of which around 3,400 prepared IFRS consolidated financial statements and around 700 prepared only IFRS non-consolidated financial statements. These numbers decreased slightly compared to 2021. For country-by-country information on the number of issuers, please refer to Annex 2.

3.2 IFRS reporting

3.2.1 How is IFRS reporting enforced

3.2.1.1 The Guidelines on Enforcement of Financial Information

Background

8. On the basis of Article 16 of the ESMA Regulation (Regulation (EU) No 1095/2010), in 2014 ESMA published its Guidelines on Enforcement of Financial Information (ESMA/2014/1293), aiming at strengthening supervisory convergence in the enforcement practices amongst the competent authorities designated in each EEA country.[5] In February 2020, a revised version of the Guidelines was published.[6] In this revised version, changes had been made to Guidelines 5, 6 and 8, two new Guidelines 6a and 6b had been added and amended definitions of the types of examinations which enforcers can undertake had been included. The revisions to the Guidelines became effective on 1 January 2022.

[5] A list of enforcers is included in Annex 1.
[6] ESMA32-50-218 Guidelines – On enforcement of financial information, 4 February 2020

9. Enforcers are required to confirm in writing to ESMA whether they comply, intend to comply, or do not (intend to) comply with the Guidelines.[7] Currently, 23 of 30 EEA countries have indicated to ESMA that they comply with the revised version of the Guidelines, while four NCAs have declared that they intend to comply in the near future.

Focus

10. The Guidelines define the objectives of enforcement, the characteristics of 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 introducing the ECEP and providing enforcers with a forum to coordinate their views on accounting matters prior to taking significant enforcement decisions at national level, the European Common Enforcement Sessions (EECS).

11. Financial information of listed issuers is subject to enforcement, regardless of which reporting framework has been applied. Although the main focus for ESMA is on financial information drawn up in accordance with IFRS as endorsed by the EU (for consolidated and non-consolidated financial statements), enforcers also examine financial information prepared in accordance with:

    - National Generally Accepted Accounting Principles (GAAP) (for non-consolidated financial statements),

    - Third country accounting standards, if those are deemed equivalent to IFRS as endorsed in the EU (for financial statements of non-European issuers).

Key definitions and concepts

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

13. Enforcers identify the most effective way for enforcement of financial information. Each enforcer's selection of issuers for examination is based on a mixed model whereby a risk-based approach is combined with sampling and 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 examinations or a combination of unlimited scope and focused examinations of financial information of issuers selected for enforcement. Depending on the enforcer's interaction with issuers, examinations are classified as interactive[8] or desktop examinations.

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[7] ESMA32-67-802 Guidelines compliance table – *Guidelines on the enforcement of financial information (ESMA32-50-218)*, 4 February 2022

[8] When questions are asked to issuers and/or documents or further explanations related to financial information are required of issuers.

14. An unlimited scope examination entails the evaluation of the entire content of the financial information, while a focused examination refers to the evaluation of pre-defined issues / areas in the financial information and the assessment of whether this information is compliant with the relevant financial reporting framework. The depth and scope of an examination procedure cannot be equated with those of an audit of financial statements.

15. According to Guideline 7, when a material misstatement is detected, enforcers should, in a timely manner, take at least one of the following actions:

- Require a reissuance of the financial statements: This action leads the issuer to publish revised financial statements which are subject to a new audit opinion,

- Require a corrective note: This action entails that either the issuer or the enforcer itself publishes a note in relation to a material misstatement with respect to the particular item(s) included in already published financial information along with the corrected information, or

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

16. The assessment of whether a departure from the standards is material is made in accordance with the relevant financial reporting framework. In relation to financial reports prepared in accordance with IFRS, paragraph 7 of IAS 1 *Presentation of Financial Statements* states that information is considered material if omitting, misstating, or obscuring it could reasonably influence decisions that the primary users of financial statements make on the basis of those financial statements.

17. Depending on the nature of the items to which the identified departure from the standards relates, enforcers consider quantitative and/or qualitative factors to determine whether a departure could reasonably be expected to influence the decisions of users. As the assessment of materiality of disclosures involves to a greater extent qualitative considerations, for enforcers it is key that the disclosures provided in financial statements are informative, comprehensive and clear to enable an understanding of the transactions or events having occurred in a given year and how the principles of recognition, measurement and presentation have been applied by issuers.

18. The assessment of materiality often requires judgement and depends on entity-specific facts and circumstances. Therefore, the decision regarding which specific quantitative thresholds and qualitative criteria are to be applied in the context of an individual company's financial statements is made by the enforcer conducting the examination of those financial statements.

19. The IFRS Practice Statement 2 *Making Materiality Judgements* published by the International Accounting Standards Board (IASB) in 2017, which includes an overview of the general characteristics of materiality and presents a four-step materiality assessment process, provides helpful guidance on how to make materiality judgements in specific circumstances.

20. When deciding which type of action to apply, enforcers should consider (subject to the existing powers of the enforcer) that the final objective is that investors are provided with the best possible information and an assessment should be made as to 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, the nature of the decision and the surrounding circumstances. For instance, a correction in future financial statements might be appropriate when the decision is very close to the date of the publication of the next financial statements (which could also be the interim financial statements of the issuer), when the market is sufficiently informed at the moment the decision is taken or when the decision relates merely to the way information was presented in the financial statements rather than to the substance (e.g. material information is clearly presented in the notes or elsewhere in the financial report, for instance in the management report, whereas the relevant accounting framework requires the presentation on the face of the primary financial statements).

21. Furthermore, 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 a pre-clearance procedure.[9] Even when no enforcement actions are required, enforcers often make recommendations during the examination process on how certain disclosures could be improved by issuers.

3.2.1.2 Coordination of enforcement

European Enforcers Coordination Sessions (EECS)

22. ESMA's activities on supervisory convergence of enforcement are carried out mainly through the EECS, a forum of approximately 40 enforcers from the various EEA countries who act in the area of supervision and enforcement of financial information. The EECS is responsible for coordinating the supervision of approximately 4,100 listed issuers preparing IFRS financial statements and as such currently constitutes the largest regional enforcers' network with supervision responsibilities for IFRS.

23. According to Guideline 10, through the EECS, enforcers discuss and share their experiences with the application and enforcement of IFRS. In particular, they discuss those enforcement cases which fulfil the submission criteria set out in the Guidelines,

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

either before or after decisions are taken. When time constraints do not allow for waiting until the next EECS meeting to discuss an emerging issue (seven meetings took place in 2022), issues can be discussed in ad-hoc conference calls or through written procedure.

24. The purpose of the EECS discussions is to let enforcers benefit from the experience of other enforcers who have already encountered similar issues and to gather useful input for the analysis of technical issues. 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. The discussions promote a consistent European approach in the application of IFRS, as enforcers are to take account of the outcome of previous discussions in the EECS when making enforcement decisions.

25. In addition to discussing supervisory cases, the EECS provides technical input on the issuance of ESMA statements and 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. Because of the coordination within the EECS, ESMA and enforcers can identify areas in which there appears to be a lack of guidance or divergent interpretations of IFRS. Such areas are subsequently referred to the IASB or the IFRS Interpretations Committee (IFRS IC), as appropriate.

Coordination of IFRS enforcement decisions

26. In 2022, 32 emerging issues were discussed in the EECS, constituting a decrease compared to 2021 where 49 emerging issues were discussed. As regards decisions, enforcers submitted 37 decisions to the EECS database, 8 of which were discussed, compared to 40 decisions submitted and 11 discussed in 2021. The majority of the decisions that were not discussed in the EECS had previously been discussed in the group as emerging issues.

27. The most common topics discussed in the EECS concerned issues related to the application of the accounting standards IFRS 15 *Revenue from Contracts with Customers*, IFRS 9 *Financial Instruments*, IAS 32 *Financial Instruments: Presentation*, IAS 38 *Intangible Assets*, and IFRS 8 *Operating Segments*. Below, ESMA presents a more detailed description of some topics which were discussed in the EECS during 2022. It should be noted that these examples are neither intended to represent all types of issues discussed nor all areas where the application of IFRS was challenged by enforcers, but they serve to illustrate some of the issues found and discussed during the year:

- In relation to the application of IFRS 15, the main issues discussed related to the application of IFRS 15 in specific industries, the interaction of IFRS 15 and IFRS 10 connected to corporate wrappers[10] in the real estate sector, the recognition of revenue over time vs at a point in time.

- Discussions on IAS 32 and IFRS 9 in the EECS focussed on issues related to distinction between liabilities and equity in the context of Special Purpose Acquisition Companies (SPACs), reclassification of assets arising from changes in business model, interaction between IFRS 15 and IFRS 9 in relation to the type of settlement of a contract. As in prior years, a dedicated, temporary task force shared experiences on the matters related to financial institutions, in particular on various aspects of expected credit loss (ECL) measurement.

- Issues discussed in relation to the accounting for intangible assets included the determination as to whether certain expenditures meet the conditions for recognition as an intangible asset set out in IAS 38 and the measurement of non-monetary assets acquired through an exchange of assets.

- Finally, regarding the application of IFRS 8, discussions in EECS focussed on the definition of the chief operating decision maker (CODM), aggregation of reportable segments based on similar economic characteristics of products and services and disclosures of revenue per major customers.

EECS Database

28. To enable sharing of enforcement decisions and experiences among enforcers, in 2005 ESMA's predecessor, the Committee of European Securities Regulators (CESR), set up an internal database to which enforcers submit emerging issues to be discussed and decisions taken within their national enforcement process. According to ESMA's Guidelines on Enforcement of Financial Information (GLEFI), enforcers should submit their emerging issues and enforcement decisions if they meet the criteria defined in the Guidelines.

29. At the end of 2022, the EECS Database contained 1,283 decisions and 692 emerging issues. As such, the database constitutes a large archive of knowledge and is an important source of information for enforcers when they take enforcement decisions.

30. Based on the contents of the EECS Database, ESMA publishes enforcement decisions taken by enforcers on a regular basis. The purpose of these publications is to help market participants understand which accounting treatments enforcers consider to be (non) compliant with IFRS on specific cases and as such to contribute to the consistent application of the standards. In the course of 2022, ESMA published one such extract from its EECS Database, containing 11 enforcement decisions.[11] ESMA will continue to

[10] Transactions in which an entity sells its equity interest in a subsidiary that holds only real estate assets and then leases that real estate asset back.
[11] ESMA32-63-1224 26th Extract from the EECS's Database of Enforcement, 17 May 2022.

publish extracts from the database and notes that its published decisions are included in the database of the International Organization of Securities Commissions (IOSCO).

3.2.2 Main indicators of national enforcement activity

31. To monitor enforcement activity, ESMA collects data on the number of examinations performed and the number of actions taken by enforcers. The examination and action rates presented in this section are based on the number of listed issuers which prepare IFRS financial statements at the end of 2022 as presented in section 3.1. Additionally, 47 issuers prepared consolidated financial statements under third country Generally Accepted Accounting Principles (GAAP) deemed equivalent to IFRS.[12]

32. Table 1 below presents aggregated information on the number of issuers whose financial information was examined by enforcers over 2022. As can be seen, in 2022 enforcers performed 425 unlimited scope examinations of the financial statements of IFRS issuers, covering financial statements of around 10% of listed IFRS issuers in Europe (11% in 2021). In addition, the financial statements of 215 IFRS issuers were subject to focused examination, representing a coverage of around 5% of listed IFRS issuers (6% in 2021).

[12] Each enforcer's selection of issuers for examination is based on a mixed model whereby a risk-based approach is combined with sampling and rotation. For more details see paragraph 13 of this report.

Table 1: *Issuers examined during 2022*

	Number of issuers examined					
	Unlimited scope		*Focused*		***Total 2022***	*Total 2021*
	Desktop	*Interactive*	*Desktop*	*Interactive*		
EXAMINATIONS OF FINANCIAL INFORMATION IN FINANCIAL REPORTS						
Ex-post examinations	**65**	**326**	**96**	**113**	**600**	619
Annual IFRS financial statements	64	309	94	106	**573**	585
Interim IFRS financial statements[13]	1	17	2	7	**27**	34
Pre-clearances	**0**	**0**	**0**	**4**	**4**	4
EXAMINATIONS OF FINANCIAL STATEMENTS IN PROSPECTUSES[14]						
Financial statements in prospectuses	8	26	0	2	**36**	88
Total number of issuers preparing IFRS financial statements subject to examination	**73**	**352**	**96**	**119**	**640**	711
Ex-post examinations of financial statements prepared using third country GAAP deemed equivalent to IFRS	0	0	0	0	**0**	4

33. Altogether in 2022, the financial statements of 640 issuers, corresponding to 16% of listed issuers preparing financial statements under IFRS were subject to examination by enforcers (17% in 2021). Of these, 600 IFRS issuers were subject to ex-post examinations (619 in 2021). Furthermore, enforcers performed follow-ups of examinations completed in previous years on 149 issuers. Such follow-ups are not included in the statistics above.

34. Table 2 categorises countries into clusters, depending on how many listed issuers prepare IFRS financial statements (see Annex 2 for more detail).

[13] Where both the interim and annual financial statements of an issuer were examined, only the latter examination is counted.
[14] Please note that only examinations of financial statements in prospectuses relate to successful initial public offerings (IPOs) and first admissions to trading carried out in accordance with Guidelines 4 and 6 of ESMA's Guidelines on Enforcement of Financial Information are counted in these statistics (examinations of prospectuses that do not effectively lead to a listing are not counted). The majority of enforcers review financial statements contained in prospectuses as part of their procedures to approve prospectuses. Therefore, when prospectus review is based on the Prospectus Regulation rather than on the Guidelines on Enforcement of Financial Information, they are not taken into account for the purpose of this report.

Table 2: IFRS issuers per country at 2022 year-end

Number of IFRS issuers	Countries[15]
1-49	Estonia, Iceland, Latvia, Lithuania, Portugal, Slovakia, Slovenia
50-99	Austria, Croatia, Cyprus, Czech Republic, Hungary, Ireland, Malta, Romania
100-249	Belgium, Denmark, Finland, Greece, Italy, Luxembourg, Netherlands, Spain
≥250	Bulgaria, France, Germany, Norway, Poland, Sweden

35. Table 3 shows that enforcers took actions in 38% of the ex-post examinations performed during 2022 (40% in 2021).

Table 3: Examinations and actions for IFRS issuers in 2022[16]

	Issuers per cluster - end of 2022	Issuers subject to unlim. scope exam.	Unlim. scope exam. rate	Issuers subject to exam.	Exam. rate[17]	Issuers subject to ex-post exam.	Issuers for which actions were taken	Sample action rate
1-49 issuers	214	44	**21%**	54	**25%**	46	11	**24%**
50-99 issuers	617	59	**10%**	91	**15%**	85	40	**47%**
100-249 issuers	1,172	147	**13%**	218	**19%**	205	61	**30%**
>250 issuers	2,087	175	**8%**	277	**13%**	264	113	**43%**
Total 2022	**4,090**	**425**	**10%**	**640**	**16%**	**600**	**225**	**38%**
Total 2021	*4,173[18]*	*458*	*11%*	*711*	*17%*	*619*	*250*	*40%*
Total 2020	*4,294*	*426*	*10%*	*729*	*17%*	*689*	*265*	*38%*
Total 2019	*4,377*	*453*	*10%*	*810*	*19%*	*767*	*253*	*33%*

36. The action rate included in the report represents the number of issuers for which actions were taken divided by the number of issuers subject to ex-post examinations. ESMA points out that the action rate in relation to recognition and/or measurement issues is

[15] There are no listed issuers from Liechtenstein.
[16] Since the United Kingdom withdrew from the EU in 2020, the comparative figures do not include issuers from the United Kingdom.
[17] Number of issuers examined divided by total number of issuers.
[18] The figure differs from the corresponding figure in the 2021 report as it has been updated by NCAs post-publication. Annex 2 further details the updated numbers by NCA.

13% (12% in 2021), while the action rate regarding issues with respect to disclosures represents 25% (28% in 2021).

37. Table 4 illustrates the overall distribution of the actions taken by enforcers during 2022 across the type of action, the type of financial statement and the type of issue to which they related. As in the previous year, in around 20% of the actions taken, enforcers required issuers to make immediate disclosure to the market by way of reissuance of the financial statements or the publication of a corrective note, while, in the remaining 80% of actions enforcers considered a correction in the future financial statements to be sufficient. Please refer to Annex 4 for the disaggregated number of actions per country.

Table 4: *IFRS issuers for which actions were taken*[19]

	Relating to recognition and / or measurement		**Relating only to disclosure**[20]		Total
	Annual IFRS financial statements	*Interim IFRS financial statements*	*Annual IFRS financial statements*	*Interim IFRS financial statements*	
Require a reissuance of financial statements	4	8	4	0	**16**
Require a public corrective note	18	1	9	2	**30**
Require a correction in future financial statements	41	4	127	7	**179**
Total 2022	**63**	**13**	**140**	**9**	**225**
Total 2021	*67*	*7*	*163*	*13*	*250*
Total 2020	*98*	*7*	*136*	*24*	*265*
Total 2019	*79*	*8*	*156*	*10*	*253*

38. Around 34% of the actions taken during 2022 related to issues regarding recognition and/or measurement (including presentation), while 66% of the actions related only to disclosure issues. ESMA emphasises that the concept of materiality is pervasive to the financial statements as a whole and that omitting, obscuring, or misstating material information in the notes could reasonably be expected to influence decisions that primary users of the financial statements make based on those financial statements.

[19] If an enforcer took two enforcement actions on the same issuer (e.g., required a corrective note and a correction in future financial statements), only the most severe action is counted.

[20] Actions defined as relating to disclosure only do not include actions which in addition to disclosure also relate to measurement, recognition or presentation (such actions are included in actions relating to recognition and/or measurement).

39. Lastly, the following figures present the areas in which enforcers took actions in 2022, relating to issues with respect to recognition and/or measurement as well as to disclosures. In relation to both, similar to 2021, most actions were taken in four areas, namely financial instruments, impairment of non-financial assets, presentation of financial statements and revenue.[21]

Figure 1: *Areas addressed with enforcement actions in 2022 (issues with respect to recognition and/or measurement)*

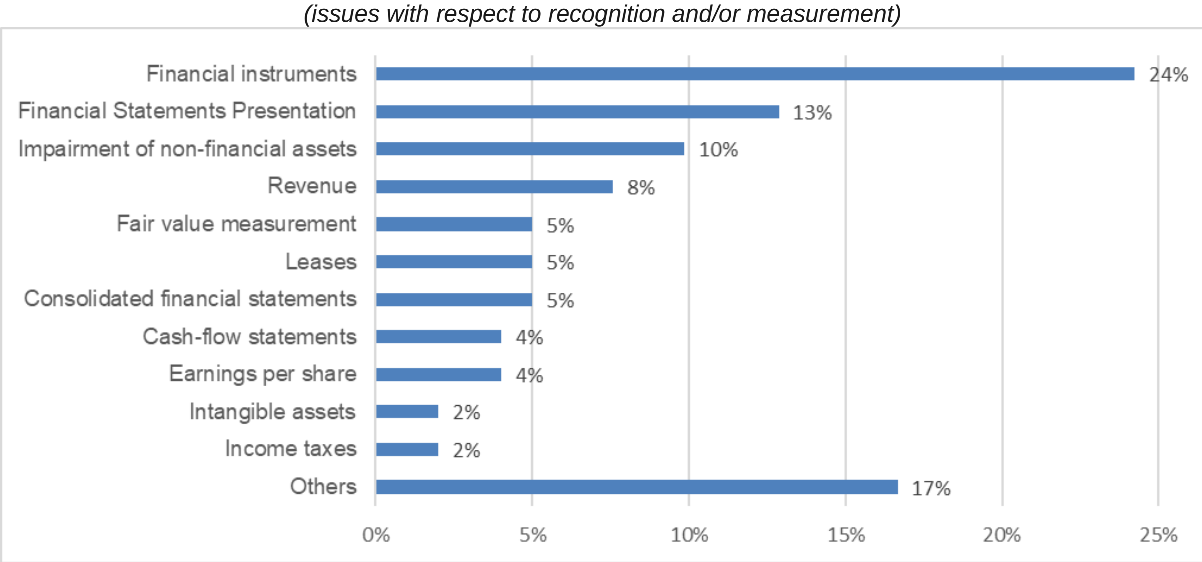
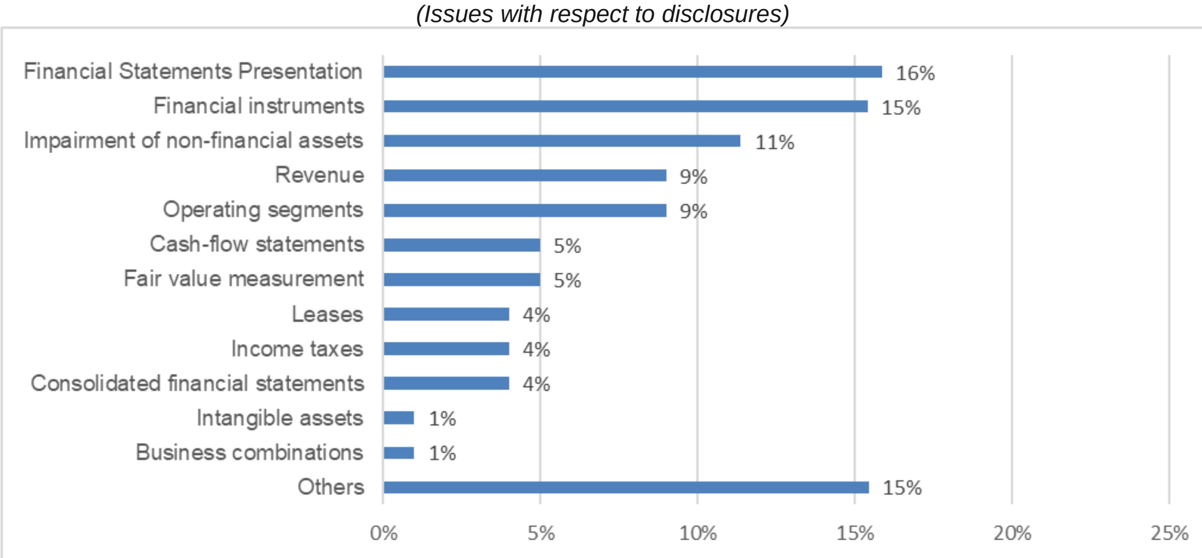


Figure 2: *Areas addressed with enforcement actions in 2022 (Issues with respect to disclosures)*



[21] With respect to the "Other" areas addressed with enforcement actions in 2022, the issues identified with recognition and/or measurement related primarily to business combinations, borrowing costs and investment property, while the issues identified with respect to disclosures related primarily to disclosures about related parties and interim reporting.

3.2.3 Assessment of compliance with ESMA's 2021 ECEP

40. Establishing European Common Enforcement Priorities (ECEP) is one of the important ways of fostering supervisory convergence across the EEA. ESMA has developed ECEP on an annual basis since 2012 and has found that communicating certain priorities to stakeholders in this way before annual financial statements are prepared contributes to preventing misstatements and to enhancing the quality and consistency of corporate reporting across the EEA. ESMA published the priorities to be considered in the preparation of 2021 annual financial statements in October 2021 (hereafter referred to as the 2021 ECEP).[22]

41. The 2021 enforcement priorities for financial statements drawn up in accordance with IFRS reflected the need to ensure consistency between IFRS financial statements and non-financial information on climate-related matters, including disclosure of significant judgements and estimation uncertainty regarding climate risks. Additionally, the 2021 ECEP included considerations for enhanced transparency regarding the measurement of ECL in relation to management overlays, significant changes in credit risk (SICR), forward-looking information (FLI), changes in loss allowances, credit risk exposures and collateral, and the effect of climate-related risks on ECL measurement. Finally, the 2021 ECEP highlighted the need for issuers to conduct a careful assessment and provide transparency in accounting for longer-term impacts of the COVID-19 pandemic.

42. To analyse how the 2021 ECEP were applied, enforcers examined the annual financial statements of a sample of 171 issuers from 28 EEA countries. Issuers in the sample were not selected randomly,[23] and, therefore, the findings in the sections below should not be extrapolated to the wider population of listed issuers in the EEA. All findings in the following sections refer to the sub-sample of issuers for whom a given topic was relevant.

Enforcement actions related to the 2021 ECEP

43. Overall, enforcers took 10 enforcement actions against the 171 issuers in the sample. These actions mainly consisted of requiring the issuer to correct the relevant matter in future financial statements. In addition to those actions undertaken within 2022, 39 examinations of 2021 IFRS annual financial statements were still open at the end of 2022. Although the sample action rate was 6%, a significant number of recommendations to improve financial statements were requested by enforcers. In light of the shortcomings arising from the 2021 ECEP assessment, ESMA and enforcers are committed to engage with auditors, issuers and audit committees in order to improve the quality of information provided to investors.

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[22] ESMA32-63-1186 - Public Statement – *European common enforcement priorities for 2021 annual financial reports*, 29 October 2021.

[23] When selecting issuers for examination for the purpose of the 2021 ECEP assessment, enforcers took into account if at least one of the 2021 ECEP priority topics (longer-term impacts of COVID-19, climate risks or ECL disclosures) was material in the issuer's financial statements.

44. The table below reflects the distribution and types of actions across the areas examined for the purpose of the 2021 ECEP.

Table 5: *Enforcement actions on the sample of issuers*

	Climate-related matters	ECL disclosures of credit institutions	Impacts of COVID-19 pandemic	Total
Reissuance of financial statements	0	0	0	**0**
Public corrective note	1	0	0	**1**
Correction in future financial statements	6	3	0	**9**
Total number of enforcement actions	**7**	**3**	**0**	**10**
Sample size	98	36	71	**171**[24]
Sample action rate	7%	8%	0%	**6%**

3.2.3.1 Climate-related matters

45. Enforcers assessed how issuers addressed the aspects of climate risk and climate-related matters highlighted in the 2021 ECEP, based on a sample of 98 issuers. Information about the sector and market capitalisation of the issuers in the sample is presented in the graphs below.

Figure 3*: Composition of issuer sample by total market capitalisation*

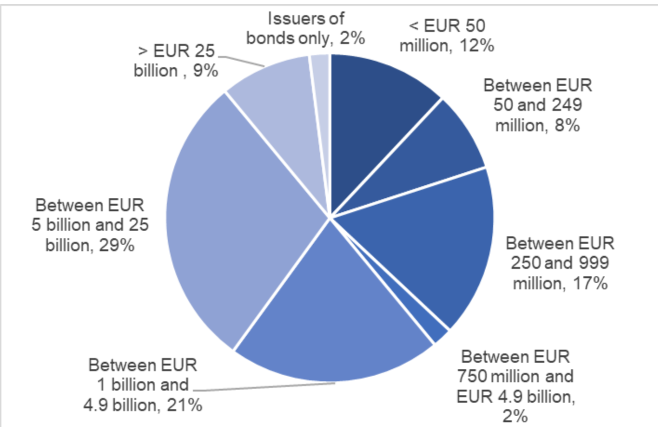
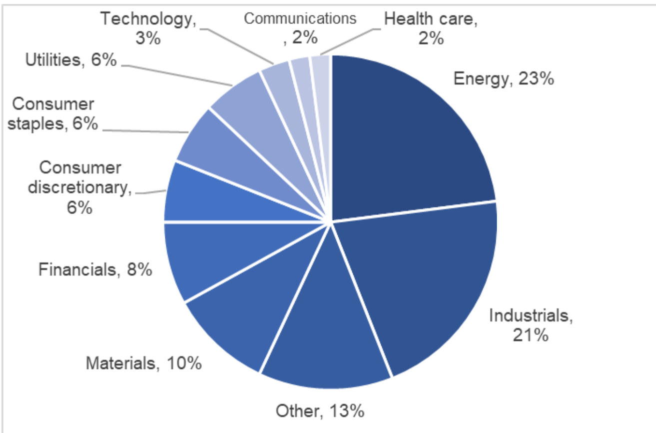


Figure 4: *Composition of issuer sample by sector or activity*



[24] As 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 – 171 – is lower than the total of the sample size.

Analysis of information provided

Key Finding: There is significant room for improvement in disclosures of climate-related matters by issuers in their financial statements

While enforcers did not identify significant inconsistencies and/or contradictions between the information disclosed in management reports and the information inside financial statements, they considered that information regarding climate-related matters in financial statements was often incomplete or altogether missing. This observation is particularly concerning when the issuer operates in a sector which is expected to be highly impacted by climate risks or is located in areas where climate risks are expected to be relevant.

Furthermore, ESMA identified shortcomings on disclosures as to how climate risks were considered when forward-looking assumptions were necessary, such as in recoverable amount calculations. Deficiencies were also identified in disclosures of climate-related matters as a major source of estimation uncertainty and judgements. As such, and in light of the continued prioritisation of climate-related recommendations in the 2022 ECEP, ESMA urges issuers to continue to improve their disclosures related to climate-related matters when preparing IFRS financial statements to enable investors to understand the impact of climate-related matters on the issuer's financial position, financial performance and cash-flows.

Finally, ESMA continues to call for transparency in the accounting treatment of carbon and greenhouse gas (GHG) emission trading schemes, particularly when such schemes affect issuers' financial performance and position.

Consistency between IFRS financial statements and non-financial information

46. In the sample of issuers selected by the enforcers, 82% and 44% of issuers operate respectively in an industry or in a location where climate-related issues are expected to be material.

47. ESMA welcomes that, for 92% of the issuer sample, enforcers did not identify any significant inconsistencies between the climate-related information disclosed in the financial statements and the information presented in the management report, the non-financial statement and, where applicable, a prospectus. The remaining 8% of issuers in the sample provided inconsistent or partially inconsistent climate-related information across their reporting, for example, by providing climate-related information (climate change risks, climate-related targets, impact of ESG projects), in accompanying sustainability reports or management commentaries, but not reflecting such information anywhere else in the financial statements.

48. Enforcers identified that 67% of the issuer sample disclosed information that would, at least partially, allow users of financial statements to assess the effect of climate-related matters on the issuer's financial position, financial performance and cash flows, including information such as impacts of physical risks (shortage of water in production, higher

energy prices), impacts of transforming business lines due to climate-related matters (restructuring-related accruals and impacts on cash flow, goodwill impairment and planning period), and compliance costs (costs of EU emission allowance certificates). The other 33% of the issuer sample did not disclose such information. In most cases, more information was requested by enforcers.

49. Finally, in this respect ESMA notes that only 10% of the issuer sample disclosed sensitivity analyses for a range of climate-related scenarios, and only 6% of issuers also provided explanations of the related uncertainties in the estimates.

IAS 36 Impairment of Assets

50. 32% of the issuer sample had material assets that should be tested for impairment under IAS 36 and identified climate risks as major sources of estimation uncertainty or causes for significant judgements required under IAS 1. Further information in this section is provided for this sub-sample of issuers.

51. Of these issuers, 55% provided sufficient explanations for these key assumptions in relation to climate-related matters (including price volatility in commodities, CO_2 emission allowances, adjustments to the discount rate or to growth rates). The other 45% of this sub-sample, despite having indicated that climate risk is a major source of estimation uncertainty, either provided insufficient explanations or did not provide any information.

52. Similarly, 71% of issuers in the sub-sample included climate-related factors in key assumptions used to estimate assets' recoverable amounts, while 29% did not disclose this information. Of those that did provide disclosures, 55% provided sufficient descriptions and figures of the applicable climate-related assumptions, such as price and production volumes impacted by energy transition policies, CO_2 emission allowances, while 45% provided only boilerplate disclosures that did not specify in detail how assumptions related to climate-related matters were incorporated into the assessment.

IAS 16 Property, Plant & Equipment and IAS 38 Intangible Assets

53. 28% of the issuer sample had material assets exposed to climate risks in scope of IAS 16 and IAS 38 and identified climate risks as major sources of estimation uncertainty or causes for significant judgements required under IAS 1. Further information in this section is provided for this sub-sample of issuers.

54. In relation to the disclosure of major sources of estimation uncertainty or causes for significant judgements, enforcers noted that only 41% of issuers provided sufficient explanations on these judgements or major sources of estimation uncertainty (including technical characteristics of each asset, energy transition considerations, and where relevant, additional downward sensitivities related to growth rates, commodity prices, etc.). For the remaining 59% of the sub-sample, enforcers identified that the issuer

should have made such disclosures and, in most cases, took an action or measure in relation to this.

55. 48% of issuers in the sub-sample considered climate change, to some extent, when assessing whether the expected useful lives of non-current assets or the estimated residual values should be revised; the remaining issuers (52%) either explicitly indicated that they did not consider climate change when performing their annual assessment or did not provide any information as to whether they have considered climate change when assessing the need to revise the expected useful lives or the residual values of non-current assets.

56. 37% of issuers in the sub-sample disclosed information on material expenditures to change or adapt business activities and operations, including research and development, resulting from climate-related matters, and on the accounting treatment of such expenditures.

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

57. Enforcers identified that 21% of the issuer sample disclosed climate-related matters as major sources of estimation uncertainty or causes for significant judgement with effect on the provisions and contingent liabilities in the scope of IAS 37. Of these issuers, 57% provided sufficient explanations for these judgements or major sources of estimation uncertainty, pointing to considerations such as provisions and/or obligations related to legislative or regulatory requirements, changes in the condition of a specific location or changes in technology. For the remaining 43% of this sub-sample, enforcers considered that issuers should have made such disclosures; for two-thirds of such cases, enforcers have taken an action or recommended improvements in relation to considerations of climate risk in financial statements, while the other third of cases are still ongoing examinations.

58. Only a small section of the issuer sample recognised material provisions or disclosed material amounts of contingent liabilities related to the following climate-related areas:

Table 6 *- Recognition of material provisions or disclosure of material amount of contingent liabilities*

% of issuers	**Recognised material provisions or disclosed material amounts of contingent liabilities related to:**
Levies imposed by governments for failure to meet climate-related targets or to discourage or encourage specified activities	1%
Regulatory requirements to remediate environmental damage	17%
Contracts that became onerous	2%
Restructurings to redesign products or services to achieve climate-related targets	3%
Other climate-related issues (e.g. legal claims)	3%

Note: An issuer may have recognised material provisions or disclosed material amounts of contingent liabilities related to more than one area listed in this table.

59. Of the issuers that recognised such material provisions or disclosed material amounts of contingent liabilities related to climate-related areas, 67% provided sufficient descriptions of the nature of the obligation, such as provisions for CO_2 emissions or facility closure costs, and the expected timing of any resulting outflows of economic benefits. The other 33% of issuers either did not provide disclosures or sufficient details, such as information on the expected timing or disclosed major assumptions concerning future events.

Other IFRS requirements

60. 23% of the issuer sample engaged in carbon or GHG emission trading schemes. Although not explicitly required in IFRS, 83% of these issuers provided information on their accounting policies regarding these schemes explaining in particular how emission allowances are recognised and measured. Of the remaining 17% of these issuers, half of them provided no such disclosures, while the other half provided insufficient information on the accounting treatment of such schemes in their accounting policies.

61. Of the same issuer sub-sample that has engaged in carbon or GHG emission trading schemes, 74% provided some information on how carbon or GHG emission trading schemes has affected their financial performance and financial position, referring for example to their accounting policies regarding valuation of emission allowance certificates, amortisation and provisions made to cover the deficit that may arise when the estimated volume of GHG emissions exceeds emission rights. The remaining 26% of issuers did not provide such information in their financial statements.

Enforcement actions

62. All seven actions (one corrective note and six corrections in future financial statements) taken by enforcers regarding the consideration of climate risk in financial statements are related to disclosures and include, among others, insufficient disclosures on:

- the impact of climate-related matters on the financial statements, such as when reporting climate-related factors as major sources of estimation uncertainty, significant judgements or impacts on the remaining useful life of assets,

- the consideration of climate risks and the commitments made in the impairment testing of non-financial assets, and the presentation of the sensitivity analysis of recoverable amounts to a variation of key assumptions directly linked to climate change,

- carbon and GHG emission trading scheme disclosures.

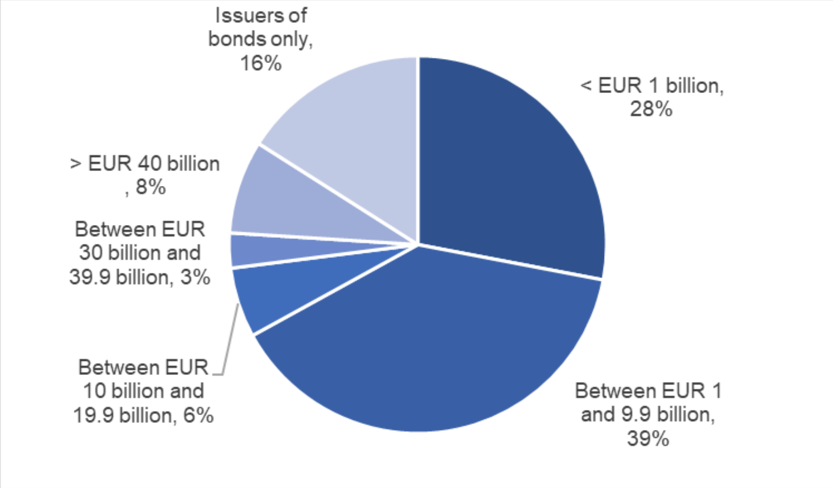
63. For 18 issuers, enforcers did not take an enforcement action but identified and communicated to the issuers areas of future improvement in disclosures related to climate risk, particularly concerning (i) progress made against climate-related targets, (ii) sensitivity analysis on the materialisation of climate risk events, (iii) additional explanation of climate-related factors considered when checking for indicators of impairment, and (iv) disclosure of main judgements, major sources of uncertainty and consideration of climate risks in the key assumptions used.

64. Examinations in relation to 18 issuers in the sample are still ongoing.

3.2.3.2 ECL disclosures of credit institutions

65. In order to assess the recommendations on enhanced transparency regarding the measurement of ECL by credit institutions outlined in the 2021 ECEP, enforcers examined the annual financial statements of 36 issuers. Information about the market capitalisation of the issuers in the sample is presented in the graph below.

Figure 5: *Composition of the sample of issuers, by total market capitalisation*



Analysis of information provided

Key Finding: Although enforcers identified only a few material departures from IFRS, there is still room for improvement in the level of transparency in the application of requirements related to ECL

ESMA emphasises the importance of providing more transparency on management overlays by European credit institutions used in the measurement of ECL, such as detailing the impact of management overlays on stage transfer and providing more granularity and quantitative information. ESMA urges issuers to enhance disclosures on the basis for inputs and assumptions, on estimation techniques used to determine whether a significant increase in credit risk (SICR) has occurred for financial instruments since their initial recognition, or as to whether a financial asset is credit impaired. Across the sample collected for the 2021 ECEP assessment, ESMA regrets to note that only half of the issuers disclosed any applied quantitative SICR-thresholds, such as relative changes in the probability of default or other deterioration triggers, with most instances not indicating any significant differences in thresholds depending on portfolio type. In addition, for most issuers examined by enforcers, ESMA noted that the issuers' ECL disclosures did not provide significant improvements in terms of transparency, compared to the disclosures in the previous annual financial statements. ESMA points issuers to the recommendations it formulated in the ESMA 2021 Report on the application of the IFRS 7 and IFRS 9 requirements regarding banks' expected credit losses (ECL),[25] together with the elements highlighted in the 2021 ECEP.

While observations were positive with regards to the incorporation of considerations of the impact of COVID-19 into macroeconomic scenarios, ESMA continues to stress the

[25] ESMA32-339-169, On the application of the IFRS 7 and IFRS 9 requirements regarding banks' expected credit losses (ECL), 15 December 2021

importance of providing detailed disclosures on forward-looking information and of enhancing transparency on changes in loss allowances, credit risk exposures and collateral.

Finally, ESMA notes that disclosures of climate-related risk on ECL measurement remain high-level and calls for a deeper level of disclosures to be provided when such climate risks are taken into account in credit risk management.

Management overlays

66. ESMA noted that 72% of issuers in the total sample used material adjustments (management overlays) in the measurement of ECL (of which 15% of issuers updating model inputs only, 56% of issuers applying adjustments outside primary models only, and 27% of issuers using both in-model and post-model adjustments).

67. Of the issuers that used management overlays, ESMA notes positively that the large majority provided, for each material adjustment, information on (i) the quantitative impact on the ECL estimate (80% of cases including in-model adjustments, 91% of cases including post-model adjustments), (ii) on the rationale for the adjustment (100% of cases including in-model adjustments, 91% of cases including post-model adjustments), and (iii) on the methodology of the adjustment (100% of cases including in-model adjustments, 68% of cases including post-model adjustments).

68. 73% of the issuers disclosed information about management overlays at a granular level, such as for individual classes of financial instruments, products, business units or geographic regions. Of these, while 32% provided only narrative information for all material overlays, 37% provided disclosures for all material overlays including quantitative effects. The other 31% provided only partial disclosures, such as no granularity beyond the overall effect on group ECL or did not provide details on individual classes of financial instruments, products, business units or geographic regions.

69. Almost half of the issuers that disclosed management overlays also disclosed information on whether the adjustments were in relation to financial instruments categorised in a specific impairment stage. Of these issuers, 77% disclosed the stage that the adjustments were related to, 15% provided partial disclosures, while 8% disclosed that there was no impact or impact was immaterial. Additionally, only 27% of issuers that disclosed management overlays also disclosed information on the impact that the adjustments have on the staging of the underlying instruments.

70. For 54% of issuers that disclosed management overlays, there were significant changes in assumptions and methodologies from the previous reporting period. Of these issuers, 86% provided sufficiently detailed explanations regarding such changes, which were often related to COVID-19 considerations. Although the information was material and relevant for the other 14%, the issuers did not provide such disclosures.

Significant changes in credit risk (stage transfers)

71. ESMA noted that 89% of issuers in the sample disclosed the significant judgements used in the determination of SICR. Of these, 88% provided specific information, while another 12% of issuers included only partial or non-specific information.

72. 78% of issuers in the sample provided disclosures on how SICR is assessed. Of these issuers, 46% indicated that it is performed individually at the level of financial instruments, 22% indicated that the assessment is done on a collective basis, while 32% indicated that SICR is assessed at both individual and collective levels.

73. Of the issuers that assessed SICR at the level of individual financial instruments, close to half did not explain how the forward-looking information in the pandemic context, such as COVID-19-related scenarios, is incorporated in the SICR assessment. Of the other half of issuers, ESMA noted that:

- 31% provided detailed explanations at the individual level for all exposures,
- 46% of issuers disclosed that the staging effect is partly incorporated through management overlays,
- the other 23% provided other types of explanations (for example, that forward-looking information is incorporated in the SICR assessment through the quantitative component of the SICR process, such as probability of default models).

74. Of the issuers that assessed SICR at the portfolio level (in whole or in part), 73% disclosed key risk characteristics underlying the grouping approach and how the collective assessment was performed, while the rest did not disclose such information. However, only 55% of issuers that disclosed such key risk characteristics also explained the method by which they applied the assessment (one-third indicating a top-down approach, and two-thirds indicating a combined top-down and bottom-up approach).

75. 47% of issuers in the sample captured SICR through management overlays; however, only 59% of this sub-sample included a separate disclosure of the quantitative effects on ECL that result from SICR being captured through such material adjustments, while the rest did not provide any such explanations.

76. 64% of issuers in the sample disclosed their quantitative and qualitative criteria for identifying SICR, while 17% of issuers disclosed such criteria only partially, or at a general level, and 19% of issuers did not disclose such information at all. Furthermore, 57% of issuers disclosed how they identified SICR for borrowers to whom significant economic support and relief measures were provided, but most of such issuers reported only qualitative information. The remaining issuers did not provide any such disclosures.

77. In the 2021 ECEP, ESMA recommended that issuers disclose any applied quantitative SICR-thresholds, such as relative changes in the probability of default or other deterioration triggers. 94% of the issuers in the sample use quantitative SICR thresholds. Of these, ESMA noted that only 53% disclosed such thresholds, with most instances not identifying any significant differences in thresholds depending on portfolio type.

78. In approximately half of the issuer sample, enforcers identified that issuers explained key drivers underlying the stage transfers in the reporting period, with varying degrees of detail: some issuers provided detailed disclosures surrounding the allocation of exposures to different transfer stages based on classification triggers, while most other issuers provided narrative descriptions of the transfers in the reporting period. The other half of the issuer sample provided no such explanations in their financial statements.

79. Finally, 86% of issuers in the sample apply a probation period ("cure period") for transfers of exposures back from stage 2 to stage 1. Of these issuers, 35% provided sufficient disclosure for a user of the financial statements to understand the criteria and length of the period of application. An additional 26% of such issuers provided partial or non-specific explanations, while 39% provided no such disclosures.

Forward-looking information (FLI)

80. In the 2021 ECEP, ESMA encouraged issuers to provide detailed explanations on how the impact of the pandemic has been considered in the macroeconomic scenarios of credit institutions. In this respect, 89% of issuers in the sample disclosed the main judgements and estimations related to uncertainties that were accounted for when defining macroeconomic scenarios. Furthermore, ESMA observed that 78% of issuers also disclosed how the impact of the COVID-19 pandemic was considered in macroeconomic scenarios, inclusive of any changes to such scenarios, and rationale for those changes, compared to the previous reporting period. Approximately two-thirds of issuers reported both quantitative and qualitative information on the macroeconomic variables and scenarios.

- 53% of issuers in the sample provided explanations, with an additional 22% of issuers providing only high-level descriptions on how they incorporate FLI in the assessment and estimation of probability of default (PD), loss given default (LGD) and/or exposure at default (EAD).

- In the 2021 ECEP, ESMA emphasised the importance of providing granular disclosures on the sensitivity analysis for macroeconomic variables. ESMA observed that 61% of the issuer sample disclosed the use of either single-factor, multi-factor or both single and multi-factor analysis to measure the isolated, or simultaneous, impact of a change in model parameters. 82% of such issuers disaggregated the impact of the ECL sensitivity analysis, using dimensions such as geographical area and macroeconomic factors. However, only 41% of such issuers also disclosed the impact of the sensitivity analysis on staging, while 77%

of such issuers disclosed the sensitivity analysis based on a 100% weighting of each macroeconomic scenario.

- 55% of issuers with disclosures on quantitative ECL sensitivity analyses also made changes to prior sensitivity assumptions and/or methodology during the reporting period. ESMA notes that a significant portion of such issuers, 83%, provided explanations of the changes made to prior sensitivity assumptions/methodology, while the remaining issuers did not disclose detailed information on this point.

Transparency on changes in loss allowances, credit risk exposures and collateral

81. Almost all issuers in the sample disclosed a tabular reconciliation of the loss allowance (impairment amount) from the opening balance to the closing balance by stage for all material asset classes and disaggregated by class of financial instruments.

82. 81% of issuers in the sample had material off-balance sheet commitments. Of these, 76% of issuers separately disclosed the tabular reconciliation of loss allowances for such commitments, while the remaining 24% of issuers did not disclose such information.

83. For 56% of issuers in the sample, the impact of changes in the calculation methodology and in model parameters were relevant and/or material. Of these, 65% outlined in their financial statements a clear distinction between the impact of changes in the calculation methodology and in model parameters.

84. 42% of issuers with material management overlays disclosed in the tabular reconciliation management overlays as specific reconciliation items.

85. While half of issuers did not provide full or any narrative explanations in addition to the tabular reconciliation, the other half of issuers did, including an analysis of the reasons for changes in the loss allowance during the reporting period. Almost all the issuers that provided such narrative explanations included details regarding how significant changes in the gross carrying amount during the period contributed to changes in the loss allowance.

86. ESMA positively observed additional transparency, whereby 85% of issuers also provided a joint reconciliation of loss allowance and gross carrying amount. On the other hand, only 47% of the relevant sample also provided indications about which reconciliation items affected the income statement and which did not.

87. ESMA expects issuers to provide an appropriate level of disaggregation to make significant credit risk concentrations transparent. The following table illustrates the number of issuers that provided disclosures on credit exposures by credit risk rating grades and per stage:

Table 7 - Breakdown of Disclosures on credit exposures

% of issuers	Disclosed	Disclosed partially	No disclosure
Gross carrying amount of financial assets	86%	8%	6%
Exposure to credit risk on loan commitments	72%	6%	22%
Exposure to credit risk on financial guarantee contracts	66%	6%	28%

88. 78% of issuers in the sample disclosed significant credit risk concentrations by providing a breakdown by stages for all levels (dimensions) of credit exposure disaggregation, while the remaining 22% of issuers did not provide or provided only a partial such breakdown. Half of the issuer sample developed the disaggregation by stage using a retail vs. wholesale dimension, 39% of the issuer sample by geographic area, 47% of the issuer sample by business segments, 58% of the issuer sample by types of products, 83% of the issuer sample by balance sheet class of financial instruments, and 17% of the issuer sample by other dimension (i.e., delays, counterparty types).

89. Where quantitative disclosures and narrative descriptions are provided in different parts of the financial statements or of the management report, ESMA noted that 83% of issuers in the sample clearly linked and cross-referenced such disclosures and descriptions.

90. On disclosures regarding collateral, 72% of the issuer sample provided a description of the nature and quality of the collateral held, while 14% of the issuer sample only provided generic information regarding the nature of the collateral held, but not on the quality.

91. For 25% of issuers in the sample, there were indications for significant changes in the quality of collateral, or changes in the collateral policies. Of these issuers, only 67% provided an explanation of such changes during the reporting period.

92. Finally, for 31% of issuers in the sample, there were indications for lack of recognition of loss allowances because of collateral. 36% of these issuers provided sufficient information on such financial instruments while the other 64% of issuers provided only partial information or no information at all.

93. On quantitative ECL sensitivity analysis data, 61% of the issuer sample disclosed the use of either single-factor, multi-factor or both single and multi-factor analysis to measure the isolated, or simultaneous, impact of a change in model parameters. 82% of such issuers disaggregated the impact of the ECL sensitivity analysis, using dimensions such as geographical area and macroeconomic factors. However, only 41% of such issuers

also disclosed the impact of the sensitivity analysis on staging, while 77% of such issuers disclosed the sensitivity analysis based on a 100% weighting of each macroeconomic scenario.

94. 55% of issuers with disclosures on quantitative ECL sensitivity analyses also made changes to prior sensitivity assumptions and/or methodology during the reporting period. ESMA notes that a significant portion of such issuers, 83%, provided explanations of the changes made to prior sensitivity assumptions/methodology, while the remaining issuers did not disclose detailed information on this point.

Effect of climate-related risk on the ECL measurement

95. While 42% of issuers in the sample disclosed some information on how climate-related factors affect the borrower's default risk, ESMA notes that the overall disclosures identified by enforcers remain limited in detail and only rarely include information on credit risk concentrations related to climate-related matters and how those climate-related matters affect the amounts recognised in the financial statements. Almost all issuers that provided this information also in other parts of the annual report (e.g., in the management report) did so in a manner consistent with the disclosures in the financial statements.

96. Only a few issuers provided specific explanations on how climate-related risks were incorporated in the ECL-calculation. The impact of climate change and other climate-related risks on the ECL models was mostly considered indirectly in the projections of macroeconomic variables.

Enforcement actions

97. Among the sample of 36 issuers assessed on the 2021 ECEP priority regarding ECL disclosures, enforcers took three enforcement actions against the issuers in the sample (corrections in the future financial statements). One issuer was required to use the effective interest rate (EIR) in determining ECL and the amortised cost of assets. The other two enforcement actions related to the insufficient level of details of the issuers' ECL-related disclosures, in particular on the sensitivity analysis of ECL, SICR and presentation of total exposure by categories.

98. For two issuers, enforcers did not take an enforcement action but identified and communicated to them areas of future improvement in ECL disclosures, particularly on macroeconomic scenarios used or the methods for determining the thresholds identified for the SICR.

99. Examinations in relation to seven issuers are still ongoing.

3.2.3.3 Impacts of the COVID-19 pandemic

100. In order to assess application of IFRS requirements highlighted in the 2021 ECEP on the impacts of the COVID-19 pandemic, the recovery phase and government support measures, during 2022 enforcers examined the annual financial statements of 71 issuers. Information about the sector and market capitalisation of the issuers in the sample is presented in the graphs below.

Figure 6: *Composition of issuer sample by total market capitalisation*

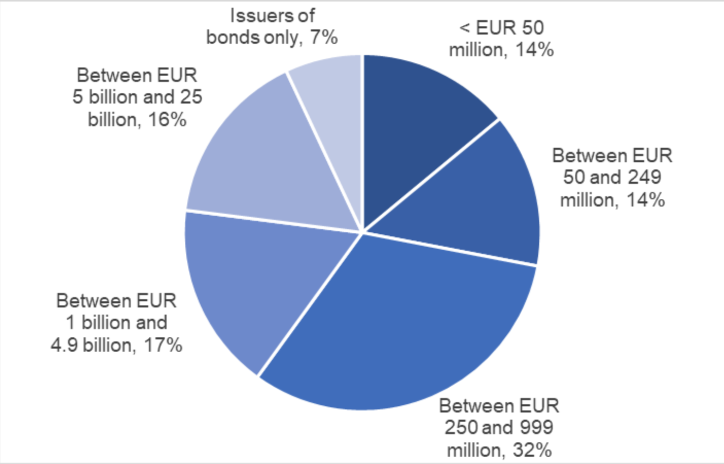
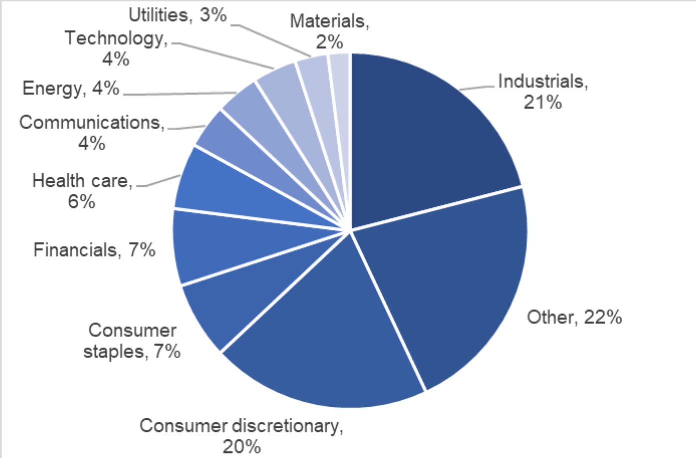


Figure 7: *Composition of issuer sample by sector or activity*



Analysis of information provided

Key Finding: Issuers generally took ESMA's recommendations on COVID-19 into consideration in an appropriate manner
The dwindling aftermath of the COVID-19 pandemic has become less relevant as the market conditions improved and restrictions were lifted. Although some examinations are still pending, ESMA concludes that, overall, the disclosures provided by issuers regarding the impact of COVID-19 in issuers' annual financial statements were sufficient and informative. *In this respect, ESMA notes that issuers often disclosed information in their financial statements regarding how the recovery from COVID-19 impacted the assumptions used in the recognition, measurement and presentation of impairments losses and deferred tax assets.* *ESMA also notes that while most issuers received some form of government support measures related to COVID-19, a fair proportion of such issuers also provided disclosures linking those support measures to the issuers' going concern assumptions. ESMA considers that the disclosures provided on the impact of government support measures on the issuers' financial position, performance, and cash flows, were generally satisfactory.* *Nevertheless, enforcers are still finalising some examinations where the disclosures regarding updates to judgements, estimates and assumptions underpinning impairment*

testing (as a result of any recent changes in issuers' economic and financial situation), as well as the recognition and measurement of deferred tax assets arising from tax losses carried forward are being challenged. Therefore, actions related to the recognition, measurement, presentation and disclosures may be identified in this area.

Longer-term impact of COVID-19

101. In the sample of issuers selected by enforcers, approximately 75% disclosed sufficient information which allows users of financial statements to assess the effects of the longer-term impacts of COVID-19 on the issuers' financial position, 73% on the financial performance and 68% on cash flows. Approximately 6% of the issuer sample disclosed insufficient and/or boilerplate information on all three areas. For the remainder subset of issuers that did not disclose any such information, enforcers considered there was no clear direct effect linked to the impacts of COVID-19 on the issuers' financial position, financial performance and cash flows requiring specific disclosures.

102. In addition, 42% of the issuer sample disclosed information on significant judgements or major sources of estimation uncertainty linked to longer-term impacts of COVID-19. Issuers pointed to the variability and uncertainties that may arise in the estimation of fair value of assets, deferred tax assets or impairment testing. 7% of the issuer sample did not provide sufficient details for the judgements and assumptions made, while the remaining issuers in the sample did not make any such disclosures; however, in the case of the latter, after interacting with the issuer,[26] enforcers considered that no further information needed to be disclosed.

Recovery from COVID-19

103. 86% of the issuer sample had material assets to which IAS 36 impairment requirements apply. 52% of this sub-sample disclosed information on updates to the judgements, estimates and assumptions stemming from the issuers' changed economic and/or financial situation due to recovery from COVID-19. Such disclosures included updates to the assumptions and to the corresponding scenario/sensitivity analyses underpinning impairment testing of non-financial assets and/or the revision of the useful life of non-financial assets. The other 48% of this sub-sample did not identify relevant changes in their economic and financial situation related to COVID-19 warranting updates to relevant judgements, estimates and assumptions compared to the previous year.

104. In the 2021 ECEP, ESMA called for transparency on the criteria and assumptions used in the recognition of deferred tax assets arising from the carry forward of unused tax losses and unused tax credits due to the COVID-19 pandemic. 34% of the total sample disclosed material deferred tax assets arising from the carry-forward of unused tax

[26] Additional details regarding the concept of interaction between issuer and enforcer can be found at ESMA32-50-218 Guidelines – On enforcement of financial information, 4 February 2020

losses and unused tax credits. 61% of this sub-sample disclosed positive evidence supporting the recognition of the deferred tax assets, which outweighed the negative evidence. 17% of issuers in this sub-sample had deferred tax liabilities exceeding deferred tax assets, while 22% of instances are still under review.

Government support measures

105. 42% of the issuer sample disclosed that they had received one or more forms of material public support measures. Most such issuers (80%, 87% and 77% of the sub-sample) disclosed sufficient information to allow users of financial statements to assess the effect of material government support measures on their financial position, financial performance and cash flows, respectively, with sufficient description of the main characteristics of the government support measures. This included information such as conditions that must be fulfilled to avoid that the loan becomes payable on demand, highlighting wages and salaries net of COVID-19-related wage supplements, and the amount of the financial compensation of losses received. Most of the remaining issuers in this sub-sample provided no such disclosures; however, enforcers did not identify that further disclosures were necessary.

106. 30% of the issuer sub-sample disclosed information about their ability to continue as a going concern. In this respect, issuers referred to government support measures received to potentially mitigate their going concern issues.

Enforcement actions

107. There were no enforcement actions against the issuers in the sample related to impacts of COVID-19 pandemic on the issuers' financial statements.

108. Examinations in relation to 14 issuers in the sample are still ongoing.

3.2.4 ESMA's other activities related to IFRS reporting

3.2.4.1 ESMA reports and public statements

109. As in previous years, ESMA and enforcers agreed on European Common Enforcement Priorities related to IFRS financial statements in advance of the preparation, audit and publication of 2021 annual financial reports and published these in the 2022 ECEP.[27]

110. In March 2022, ESMA published a follow-up report with an update on the actions NCAs have undertaken further to the peer review performed in 2017 to assess the compliance

[27] ESMA32-63-1320 Public Statement – *European common enforcement priorities for 2022 annual financial reports*, 28 October 2022

by NCAs with some of the GLEFI.[28] The follow-up report identified that the majority of the NCAs in scope have made improvements in allocating more resources to the enforcement of financial information (EFI). This was reflected in most cases in the number and type of examinations carried out. However, some NCAs still had staffing difficulties, with an obvious impact on the accomplishment of the EFI work plan and, more generally, on the allocation of time and skills to the topic. The report also highlighted that there was a risk of extra-pressure on resources due to the revision of GLEFI, and the non-financial information tasks that are gaining importance and are often allocated to the EFI teams. In terms of selection methods, it was considered that NCAs' selection methods have improved and seemed to be compliant with the GLEFI. Difficulties remained in relation to the implementation of those methods, particularly where resources can be scarce.

111. To promote transparency and consistent application of European requirements for information provided in financial reports, in May 2022 ESMA published two statements. One statement addressed the implications of Russia's invasion of Ukraine on half-yearly financial reports as the invasion posed significant challenges to business activities and introduced a high degree of uncertainty on the expected development of those activities and the associated knock-on effects on the economic and financial system, at both European and international levels.[29] Another statement promoted consistent application and high-quality implementation by issuers of IFRS 17 *Insurance Contracts*.[30] ESMA highlighted the need for issuers (specifically for insurance undertakings and financial conglomerates) to provide relevant and comparable information in their annual and interim IFRS financial statements that enables users to assess the possible impact that IFRS 17 will have in the period of initial application.

3.2.4.2 Contribution to the European endorsement process

112. In 2022, ESMA continued to be actively involved in the work of the European Financial Reporting Advisory Group (EFRAG) by participating as an official observer in the activities of EFRAG's Board and in its Technical Expert Group (TEG), where ESMA addressed the enforceability of standards and shared the experience of enforcers on the application of IFRS in Europe.

113. Furthermore, ESMA continued to contribute actively to the European endorsement process by participating as an official observer in the Accounting Regulatory Committee.

114. ESMA published three letters providing feedback on EFRAG's draft comment letters addressing the IASB's exposure drafts (EDs) on a new general approach to disclosure

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[28] ESMA/42/222/6889 Report – *Follow-up Report to the Peer Review on Guidelines on Enforcement of Financial Information*, 22 March 2022
[29] ESMA32-67-1277 Public Statement – *Implications of Russia's invasion of Ukraine on half-yearly financial reports*, 13 May 2022
[30] ESMA32-339-169 Public Statement –*Transparency on implementation of IFRS 17 Insurance Contracts*, 13 May 2022

requirements in IFRS standards[31], on proposed amendments to IAS 1 regarding classification and disclosure requirements for non-current liabilities with covenants[32] and on proposals for improvement of disclosures for supplier finance agreements.[33]

3.2.4.3 Cooperation with the IASB

115. As in previous years, throughout 2022 a permanent ESMA working group composed of IFRS experts from 14 different enforcers together with ESMA staff met regularly to discuss major accounting projects. On this basis, ESMA submitted three letters to the IASB on the EDs already mentioned in section 3.2.4.3. Additionally, ESMA submitted a letter on the IASB's Request for Information on the Post-implementation Review (PIR) of IFRS 9 Classification and Measurement.[34]

116. Furthermore, the EECS met twice with some members of the IASB's technical staff and some IASB members, in their personal capacity, to discuss complex issues identified by enforcers and for which there is no specific IFRS guidance or where widely diverging application appeared to exist. Whenever relevant, these discussions are taken into consideration by enforcers when carrying out their enforcement activities.

117. Moreover, ESMA contributed to the IFRS IC work by submitting a comment letter to a committee's tentative agenda decision.[35]

[31] ESMA32-61-484 Letter to EFRAG *on IASB's Disclosure Requirements in IFRS Standards – A Pilot Approach*, and ESMA32-61-473 Letter to the IASB – *IASB's Exposure Draft Regulatory Assets and Regulatory Liabilities*, 4 January 2022

[32] ESMA32-61-492 Letter to EFRAG *on IASB's Exposure Draft Non-current Liabilities with Covenants*, and ESMA32-61-491 Letter to the IASB – *IASB's Exposure Draft Lack of Exchangeability*, 14 March 2022

[33] ESMA32-61-494 Letter to EFRAG *on IASB's Exposure Draft Supplier Finance Agreements*, and ESMA32-61-493 Letter to the IASB -- *IASB's Exposure Draft Supplier Finance Agreements*, 14 March 2022

[34] ESMA32-339-197 Letter to the IASB – *IASB's Request from Information on the Post Implementation Review of IFRS 9 – Classification and Measurement*, 24 January 2022

[35] ESMA32-67-791 Letter to the IFRS IC – *The IFRS Interpretations Committee's tentative agenda decision on Transfer of* Insurance Coverage under a Group of Annuity Contracts (IFRS 17), 23 May 2022

3.3 APM reporting

3.3.1 How is APM reporting enforced

3.3.1.1 ESMA Guidelines on APMs

118. ESMA's Guidelines on APMs[36] were published on the basis of Article 16 of the ESMA Regulation in 2015 and became effective in 2016. The Guidelines on APMs set out principles for the presentation and disclosure of performance measures outside financial statements, such as labels, reconciliations, and definitions, to ensure that issuers comply with the "true and fair view" principle when publishing APMs.

119. The Guidelines on APMs are addressed to issuers whose securities are admitted to trading on a regulated market and who are required to publish regulated information as defined by the Transparency Directive, as well as to persons responsible for the prospectus under Article 11(1) of the Prospectus Regulation. They are aimed at promoting the usefulness and transparency of APMs included in prospectuses or regulated information such as management reports. Adherence to the Guidelines improves the comparability, reliability and/or comprehensibility of APMs. Issuers or persons responsible for the prospectus who comply with these Guidelines provide a true and fair view of the financial information disclosed to the market.

120. ESMA has published several questions and answers on the Guidelines on APMs to promote common supervisory approaches and practices in their implementation. In 2022, answers to questions about the application of the Guidelines on APMs to measures related to ESG matters and labels used by issuers on ESG financial measures were provided by ESMA.[37]

3.3.1.2 Coordination of enforcement

Narrative Reporting Working Group (NRWG)

121. The NRWG is a permanent working group of ESMA's Corporate Reporting Standing Committee (CRSC) which acts as a forum in which enforcers from the EEA exchange views and discuss experiences on, among other things, application of the Guidelines on APMs to achieve harmonisation in enforcement decisions.

122. NRWG members discuss methods for supervision as well as individual supervisory cases related to disclosures of APMs by listed issuers, provide suggestions of common supervisory or enforcement priorities at European level, conduct studies on the Guidelines on APMs and share best practices and good examples of APM disclosures.

[36] ESMA/2015/1057 ESMA Guidelines on Alternative Performance Measures, 20 June 2015.
[37] ESMA32-51-370 Questions and answers - ESMA Guidelines on Alternative Performance Measures (APMs), 1 April 2022

Coordination of APM-related enforcement decisions

123. In 2022, 3 emerging issues related to the application of the Guidelines on APMs were discussed in the NRWG. As regards decisions, enforcers submitted one decision related to the Guidelines on APMs to the EECS database. Furthermore, other topics were presented and discussed in several roundtables.

124. The discussions undertaken by enforcers in the NRWG, and the conclusions reached on that basis, are intended to improve the level of consistent application and enforcement of the Guidelines on APMs, subject to the specific facts and circumstances of the transactions discussed. In 2022, the most common topics of discussion in the NRWG concerned issues related to the application of the labelling principle, the principle of true and fair view, misleading information and to the prominence principle included in the Guidelines on APMs.

125. In this respect, NRWG members discussed a case focused on the extent to which the emphasis and the information included in the management report related to climate commitments was misleading,[38] given that the information included in the financial statements was scarce, not specific nor tailored to the circumstances of the issuer.

3.3.2 Main indicators of national enforcement activity

126. During 2022, enforcers examined 521 management reports to evaluate the presentation and disclosure of APMs. Around 89% of the examinations covered all principles of the Guidelines on APMs. Table 8 presents more detail on the examinations.

Table 8: *Issuers examined for the purpose of the Guidelines on APM*

	All principles of the Guidelines		Selected principles of the Guidelines		Total
	Desktop	*Interactive*	*Desktop*	*Interactive*	
Ex-post examinations					
Annual management report	199	203	32	25	**459**
Interim management report	44	17	1	0	**62**
Number of issuers whose APMs contained in prospectuses were examined[39]	12	10	2	3	**27**
Total number of examinations performed following Guidelines 4 and 6 of the GLEFI	**255**	**230**	**35**	**28**	**548**

[38] In light of the principle of true and fair view as included in the Transparency Directive.

[39] Please note that only examinations of APMs in prospectuses relating to successful initial public offerings (IPOs) and first admissions to trading carried out in accordance with Guidelines 4 and 6 of ESMA's Guidelines on Enforcement of Financial Information are counted in these statistics (examinations of prospectuses that do not effectively lead to a listing are not counted). The majority of enforcers review financial statements contained in prospectuses as part of their procedures to approve prospectuses. Therefore, when prospectus review is based on the Prospectus Regulation rather than on the Guidelines on Enforcement of Financial Information, they are not taken into account for the purpose of this report.

127. Table 9 further summarises the examinations undertaken by enforcers in 2022 related to the annual and interim management reports of IFRS listed issuers. The table divides EEA countries into the same clusters used in section 3.2.2 and shows the examination rate – i.e., the proportion of issuers examined – and the action rate – i.e., the proportion of examinations that led to an action. The overall examination rate remained the same at 13% as in 2021, and the overall action rate was at 17% compared to 18% in the previous year.

Table 9: *Examinations and actions regarding management reports of IFRS issuers related to APMs*

	Issuers per cluster – end of 2022	Total issuers subject to examinations	Examination rate[40]	Total issuers for which actions were taken	Action rate[41]
1-49 issuers	214	36	**17%**	4	**11%**
50-99 issuers	617	183	**30%**	27	**15%**
100-249 issuers	1,172	123	**10%**	20	**16%**
>250 issuers	2,087	179	**9%**	38	**21%**
Total 2022	**4,090**	**521**	**13%**	**89**	**17%**

128. Providing further detail regarding the actions taken on the management reports of listed IFRS issuers in 2022, Table 10 shows whether actions related to the annual or the interim management report and which type of action was taken. As in 2021, most actions consisted of enforcers requiring a correction in a future management report. Other measures relate mainly to enforcement of financial information contained in prospectuses. Please note that one enforcement action can relate to multiple areas of non-compliance.

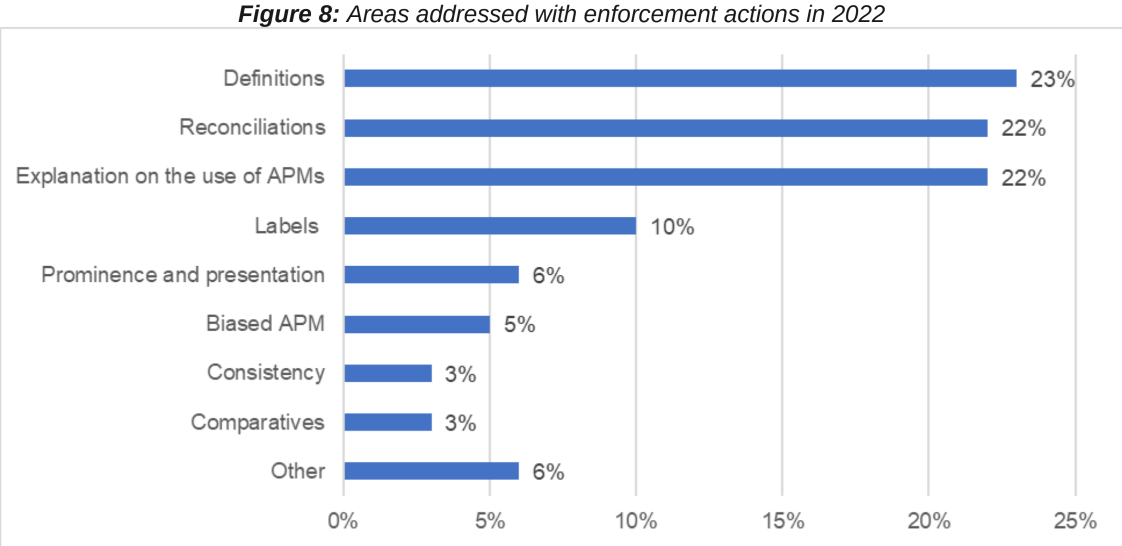
[40] Number of issuers examined divided by total number of issuers.
[41] Number of issuers for which actions were taken divided by number of examinations carried out.

Table 10: Management reports of IFRS issuers for which actions were taken

	Annual management report	Interim management report	Total
Require a reissuance of the management report	2	0	**2**
Require a public corrective note	5	0	**5**
Require a correction in future management report	60	13	**73**
Other measures	9	0	**9**
Total 2022	**76**	**13**	**89**

129. Lastly, in relation to the activities undertaken by enforcers during 2022, the figure below illustrates the topics on which enforcement actions related to compliance with ESMA's Guidelines on APMs were taken. The figure shows that, similar to last year, the areas in which most infringements were identified were definitions, reconciliations and explanations, followed by labels.

Figure 8: *Areas addressed with enforcement actions in 2022*



3.3.3 Assessment of compliance with ESMA's 2021 ECEP

130. The brief considerations on the application of the ESMA Guidelines on Alternative Performance Measures (APM) in relation to COVID-19 included in a separate section of the 2021 ECEP did not constitute enforcement priorities. Consequently, no assessment of compliance was conducted.

4 Enforcement of non-financial reporting

4.1 Context for enforcement of non-financial reporting

4.1.1 Number of issuers publishing non-financial reporting

131. At the end of 2022, approximately 2,200 listed issuers were within the scope of enforcement activities for the purpose of Article 19a or Article 29a of the Accounting Directive (Directive 2013/34/EU). For country-by-country information on the number of issuers, please refer to Annex 5.

4.1.2 How is non-financial reporting enforced

4.1.2.1 Legislative context

132. Articles 19a and 29a of the Accounting Directive, adopted in 2014 via the Non-Financial Reporting Directive (NFRD, Directive (EU) 2014/95/EU), introduced the requirement for certain issuers[42] to publish non-financial information. Issuers in most Member States published their first non-financial information under the NFRD in 2018 (covering financial year 2017).

133. While it is the Accounting Directive that places an obligation on certain issuers to publish non-financial information, it is the transposition into national law of both the Accounting Directive and the Transparency Directive that gives national competent authorities the powers to enforce this information. The link between the two pieces of legislation is established by the fact that the Accounting Directive generally requires the non-financial statement to be included in the management report[43], and the management report is required by the Transparency Directive, thus making it subject to the powers given to national competent authorities therein.

134. In December 2022, the Corporate Sustainability Reporting Directive (CSRD, Directive (EU) 2022/2464) was published in the Official Journal of the European Union. The CSRD amends the Accounting Directive, the Transparency Directive, the Audit Regulation (Regulation (EU) No 537/2014) and the Audit Directive (Directive 2006/43/EC) to introduce a more comprehensive reporting, supervision and assurance regime for sustainability reporting compared to that envisaged by the NFRD. Notably, the CSRD:

[42] Large undertakings which are public-interest entities (PIE) exceeding on their balance sheet dates the criterion of the average number of 500 employees during the financial year. PIEs are issuers listed on regulated markets, credit institutions, insurance undertakings and other undertakings defined by EU member states as PIEs.
[43] The non-financial statement may also be included in a separate report.

- extends the reporting scope to all large companies and all companies listed on regulated markets (except listed micro-enterprises),

- requires the audit (assurance) of reported information,

- introduces more detailed reporting requirements and a requirement to report according to mandatory EU sustainability reporting standards,

- foresees a proportionate reporting regime for small and medium sized entities,

- requires companies to digitally “tag” the reported information, so it is machine readable and feeds into the European Single Access Point (ESAP), and

- requires ESMA to develop guidelines directed at enforcers to promote convergent supervision of sustainability information.

135. The new requirements will apply with a phase-in approach starting from financial years beginning on or after 1 January 2024.

4.1.2.2 Coordination of enforcement

136. To achieve harmonisation in enforcement decisions, enforcers from the EEA exchange views and discuss experiences on enforcement of non-financial reporting in the NRWG (see also section 3.3.1.2 for an introduction of this working group). The main areas of focus with regards to non-financial information include:

- exchange of views on methods for supervising non-financial information of issuers whose securities are already admitted to trading on an EEA regulated market,

- sharing best practices and good examples of disclosure,

- analysis and discussion of emerging issues and enforcement decisions taken by enforcers,

- suggestion of common supervisory or enforcement priorities at European level and communication of such areas to the market,

- drafting of guidelines, supervisory briefings or Q&As,

- closely following the developments in the area of non-financial reporting.

4.2 Main indicators of national enforcement activity

137. During 2022, enforcers undertook 403 examinations of non-financial statements. Examinations were distributed across issuers who included the non-financial statement

in the annual management report and issuers who presented it as a separate document. Some of the examinations related to checking only whether the non-financial statement had been prepared ("existence only" – 17%) while the majority of examinations related to checking whether the information provided in the non-financial statement met the requirements of Articles 19a and 29a of the Accounting Directive ("existence and content" – 83%). Combining the two kinds of examination, the examination rate in 2022 was 18%. The table below provides the detailed breakdown of the examinations performed during 2022.

Table 11: *Issuers examined for the purpose of the amended Accounting Directive*[44]

	Non-financial statement included in annual management report	Non-financial statement presented as separate document	Total
Existence only	**58**	**12**	**70**
Content	**252**	**81**	**333**
Unlimited examinations	***149***	***44***	***193***
- Desktop	*32*	*4*	*36*
- Interactive	*117*	*40*	*157*
Focused examinations	***103***	***37***	***140***
- Desktop	*72*	*25*	*97*
- Interactive	*31*	*12*	*43*
Total 2022	**310**	**93**	**403**

138. As detailed further in Table 12, the 403 examinations of non-financial statements in 2022 led to enforcement actions taken for 100 issuers, causing an action rate of 25%[45], compared to 10% in the previous year. Most actions required the issuer to make a correction in a future non-financial statement. Please note that one enforcement action can relate to multiple areas of non-compliance.

[44] The examinations do not include issuers from Croatia, Cyprus, Ireland, Hungary, Liechtenstein and Norway. In the first four countries, enforcers do not have powers relating to the non-financial statement. In Norway, the Accounting Directive, including Articles 19a and 29a, has only recently been transposed into national legislation, effective from the fiscal year beginning on or after 1 July 2021. Enforcers in Estonia, Germany and Greece examined only whether the non-financial statement had been prepared ("existence only").

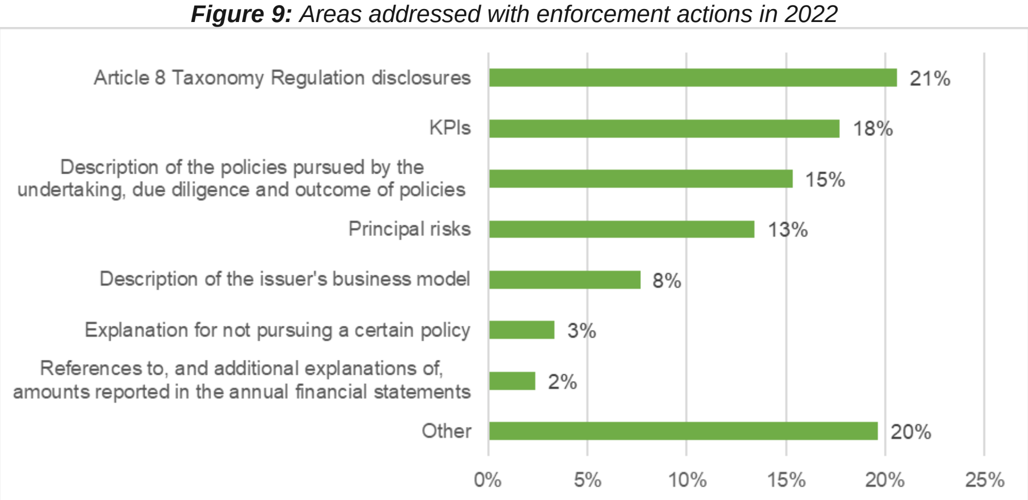
[45] ESMA did not account in this rate for the existence-only checks done by NCAs that also have a mandate on the supervision of the content.

Table 12: Enforcement measures undertaken regarding the non-financial statements

	Non-financial statement included in annual management report		Non-financial statement presented as separate document		Total
	'Existence-only' examination	*'Content' examination*	*'Existence-only' examination*	*'Content' examination*	
Require a reissuance of the non-financial statement	0	0	0	0	**0**
Require a public corrective note	0	2	0	2	**4**
Require a correction in future non-financial statement	0	68	0	15	**83**
Other measures	0	12	0	1	**13**
Total number of issuers for which actions were taken	**0**	**82**	**0**	**18**	**100**

139. The following figure illustrates the topics on which enforcement actions were taken during 2022. Two thirds of all actions related to the disclosure – or the lack thereof – regarding Article 8 Taxonomy Regulation, Key Performance Indicators (KPIs) and the issuer's principal risks, as well as to the description of the issuer's policies. The "Other" areas addressed with enforcement actions in 2022 primarily related to double materiality, the consideration of stakeholders and social and employee matters.

Figure 9: *Areas addressed with enforcement actions in 2022*



4.3 Assessment of compliance with ESMA's 2021 ECEP

140. The 2021 ECEP included a number of recommendations related to the (i) climate-related policies and their outcomes, (ii) preparations for disclosure requirements related to Article 8 of the Taxonomy Regulation, in force as of 1 January 2022, and (iii) impacts of the COVID-19 pandemic on sustainability-related goals and non-financial KPIs, as well as any information on any structural changes. For the purpose of collecting data on the way issuers addressed these areas, over the course of 2022 enforcers examined non-financial statements from a sample of 113 issuers from 23 EEA countries.[46]

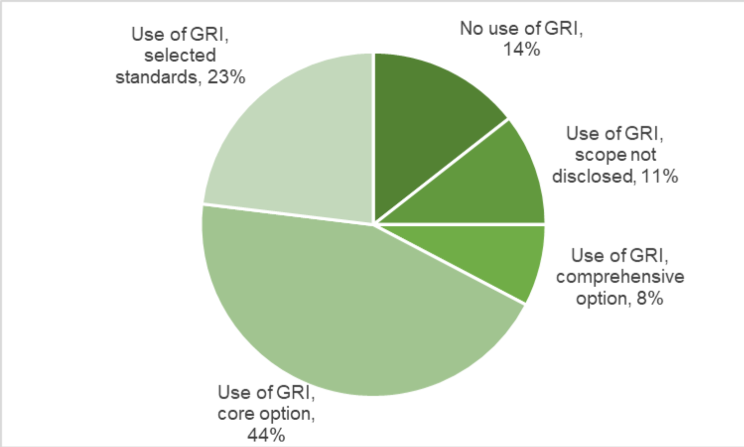
141. Of the 113 non-financial statements examined, 45% were included directly in the management report and 30% via cross-reference to a separate non-financial statement, while 13% presented the non-financial statement separately but still within the annual financial report. Finally, 12% of the examined issuers presented the non-financial statement separately outside the annual financial report[47]. Almost all non-financial statements examined (112) were consolidated statements.

142. For almost all issuers, the statutory auditor or audit firm verified whether the issuer provided a non-financial statement. For 66% of issuers, the information contained in the non-financial statement was verified by an independent assurance service provider (84% by a statutory auditor, 7% by another audit firm, 9% by a third-party assurance provider other that an audit firm) almost in all cases on a limited assurance basis. In terms of the scope of the assurance, for 39% of issuers, compliance with the transposed requirements of the Accounting Directive was verified, for the remaining issuers assurance was provided with respect to the compliance with Global Reporting Initiative (GRI) standards or another disclosure framework and generally only for a selection of non-financial performance indicators.

143. 92% of issuers specified which disclosure frameworks they (partly) applied. 86% of these issuers used GRI standards. The following figure illustrates the scope of the application of the GRI standards by the issuers who indicated which disclosure framework they applied.

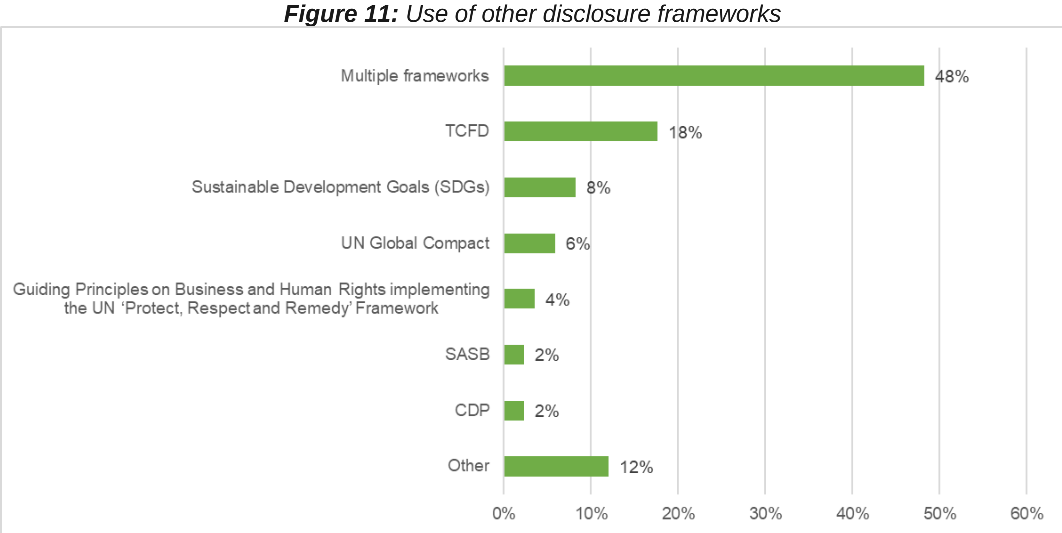
[46] The sample does not include issuers from Croatia, Cyprus, Hungary, Iceland, Ireland, Liechtenstein, and Norway.
[47] It shall be noted that even when included in the management report, either directly or by means of cross-references, the non-financial information may be distributed across different sets of documents.

Figure 10: *Scope of the application of the GRI standards*



144. Information on other disclosure frameworks used by the issuers in the sample is shown in the graph below. Other frameworks used included the European Eco-Management and Audit Scheme (EMAS) and the relevant Sectoral Reference Documents, the German national legislation and the Athens Stock Exchange ESG reporting guide. 48% of issuers using frameworks other than GRI used a combination of multiple frameworks cited in the chart or in the “other” frameworks noted above.

Figure 11: *Use of other disclosure frameworks*



145. 66% of issuers that specified which disclosure frameworks they applied clearly stated which pieces of information in the non-financial statement are based on which of the adopted disclosure frameworks. 25% did so only for some of the mentioned frameworks.

146. In the summary of findings presented in the following subsections, please be aware that, for each question, issuers for which a given topic was not relevant were removed from the sample for the purpose of calculating the percentages presented. This applies in particular to cases where the enforcer only verified the existence of certain information.

Therefore, all findings refer to the sub-sample of issuers for whom a given topic was relevant.

147. Information about the sector and capitalisation of all 113 issuers in the sample is presented in the figures below.

Figure 12: *Composition of the sample of issuers, by total market capitalisation*

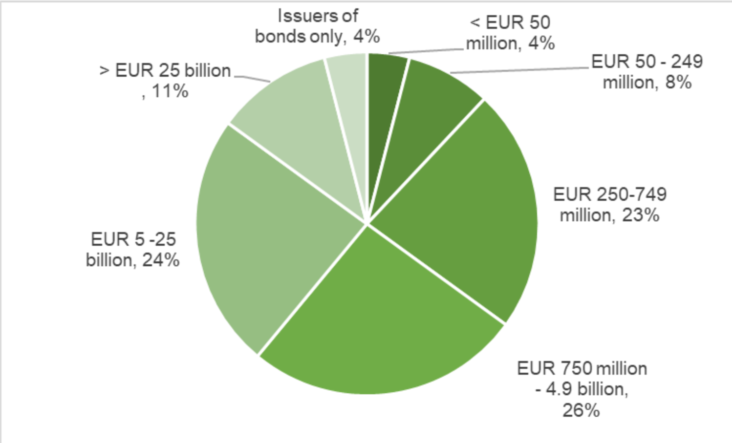
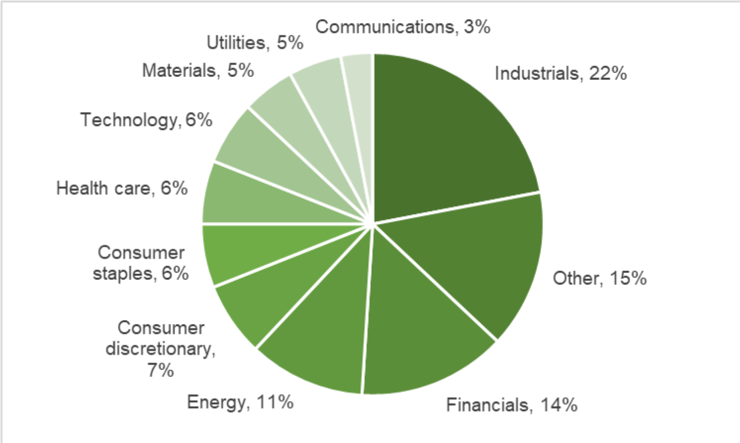


Figure 13: *Composition of the sample of issuers, by sector or activity*



Enforcement actions related to the 2021 ECEP

148. Overall, enforcers took 17 enforcement actions against the 113 issuers in the sample, mainly in the form of requiring the issuer to correct the relevant matter in the future non-financial statement. In addition, examinations in relation to 12 issuers were still ongoing at the end of 2022. The sample action rate was 15%.

149. The table below reflects the distribution of actions taken across the three focus areas of the 2021 ECEP.

Table 13: *Enforcement actions on the sample of issuers*

	Climate-related matters	Disclosures relating to Article 8 of the Taxonomy Regulation	Impacts of COVID-19	Total
Reissuance of non-financial statement	0	0	0	**0**
Public corrective note	1	0	0	**1**
Correction in future non-financial statement	11	4	1	**16**
Total number of enforcement actions	**12**	**4**	**1**	**17**
Sample size	-	-	-	113
Sample action rate	-	-	-	15%

4.3.1 Climate-related matters

Analysis of information provided

Key Finding: Significant improvements still needed in climate-related disclosures

While ESMA welcomes the fact that almost all issuers in the sample addressed climate-related matters in their non-financial statements, it notes that a small proportion of issuers still did not provide any disclosures in this area and did not provide any reasoned explanation to justify the lack of disclosures.

ESMA also notes that when disclosures regarding climate were provided, the issuers in the sample unevenly fulfilled the obligation to provide information on policies to tackle climate-related matters, including due diligence processes, on the outcomes of those policies, on the principal climate-related risks and specific performance indicators. ESMA highlights that when policies are not backed up by clear actions and measurable targets, the risk increases of providing a misleading view of the environmental profile of the issuer.

For example, the level of disclosure of GHG emissions is largely unsatisfactory as less than half of the sample provided sufficient information on Scope 3 emissions alongside their Scope 1 and Scope 2 emissions, and as information on progress towards pre-set emissions targets was also largely missing. Similarly, information on the financial consequences of climate-related matters was limited and not aligned with the expectations of investors to be able to assess the prospects of an undertaking's resilience vis-à-vis climate change. The concerns about the level of reporting on resilience is further emphasised by the limited *proportion of issuers in the sample (slightly more than half) which provided information on the adaptation actions foreseen vis-à-vis physical and transition risks.*

ESMA therefore recommends that issuers focus their efforts in the upcoming reporting season on improving the data collection systems and assessment procedure to be able to better identify climate-related impacts and risks and provide clear and complete information on the policies necessary to address those impacts and risks, explain the due diligence procedures put in place to tackle climate-related matters and set out disclosures which provide insights into any realistic and measurable targets envisaged and appropriate measures to assess the progress made against those targets.

ESMA emphasises that these improvements are not only necessary to comply with the applicable legislation, but also as preparatory measures to the upcoming application of new sustainability reporting standards foreseen by the CSRD.

150. 82% of the issuer sample provided disclosures on climate-related matters in the non-financial statement. Further information in this section is provided for this sub-sample of issuers.

151. 28% of issuers clarified in their non-financial statement that climate-related disclosures are based on the European Commission's guidelines on reporting climate-related information, 26% identified that their climate-related disclosures are based on the Task Force on Climate-Related Financial Disclosures (TCFD) framework, while 9% identified that their climate-related disclosures are based on another framework or other sources of guidance for sustainability objectives (including, but not limited to, GRI Standards, Standards by the Sustainability Accounting Standards Bord (SASB) and UN Agenda 2030). The remaining issuers in the sample provided no disclosures and less than half of them provided an explanation for omitting disclosures in this area.

152. 84% of issuers included a description of their policies for addressing climate-related matters. Such descriptions related to policies that include prevention and management of environmental impacts, energy transition objectives and sustainability strategy. The remaining issuers mostly provided only boilerplate disclosures or explanations that they are not subject to significant environmental risks to warrant a formal policy. Where issuers provided a description of such policies:

- In 77% of cases, the description contained sufficient information about the due diligence processes related to those policies, such as details concerning internal processes and the definition of specific KPIs. For most of the remaining issuers, this information was largely not disclosed in sufficient detail.

- In 84% of cases, the description covered the outcomes of those policies, including evaluation of projects related to environmental considerations and impacts of undertaken measures on energy, waste and water consumption. For most of the remaining issuers, this information was largely not disclosed in sufficient detail.

- In 77% of cases, the issuer explained the risks and opportunities that climate-related matters may give rise to for the issuer's activities. Risks often cited included shift in client needs, business continuity risks, health and safety risks and increased expenditures to ensure compliance, while opportunities included emission reduction initiatives, principles of circular economy, monitoring of supply chains and lifecycle of products. For most of the remaining issuers, this information was largely not disclosed in sufficient detail.

153. The following table summarises the extent of the explanations regarding the risks and opportunities that climate-related matters may give rise to for the issuer's activities, provided in the sample assessed by enforcers, addressing the most significant transitional risks and/or physical risks for the issuer's business model and activities and explaining how those risks are managed:

Table 14 *- Breakdown of Reported Climate Risk Type*

	Only transitional risks explained, including how they are managed	Only physical risks explained, including how they are managed	Transitional and physical risks explained, including how they are managed	Explained transitional and/or physical risks without also explaining how those risks are managed	None identified
% of issuers	11%	3%	62%	16%	8%

154. Of the issuers that explained the risks and opportunities that climate-related matters:

- 82% also provided a sufficient description of how processes for identifying, assessing and managing climate-related risks are integrated into the issuer's overall risk management. The remaining issuers largely provided only boilerplate descriptions.

- 76% also explained which adaptation actions the issuer has put in place to address climate-related risks, with the remainder providing mostly partial or boilerplate disclosures. Among the more robust descriptions provided, issuers include information such as GHG emission reduction measures, new products and services and specific strategies split by time horizons.

155. 95% of issuers provided some level of details to explain the positive impact (such as use of sustainable resources, efficient power and cooling management) or negative impact (such as carbon footprint, water and electricity consumption, waste created) that their actions may have on climate-related matters. Of these issuers, 76% provided information regarding mitigation actions the issuer has put in place to address negative impacts, while the remainder largely provided less details or just boilerplate disclosures.

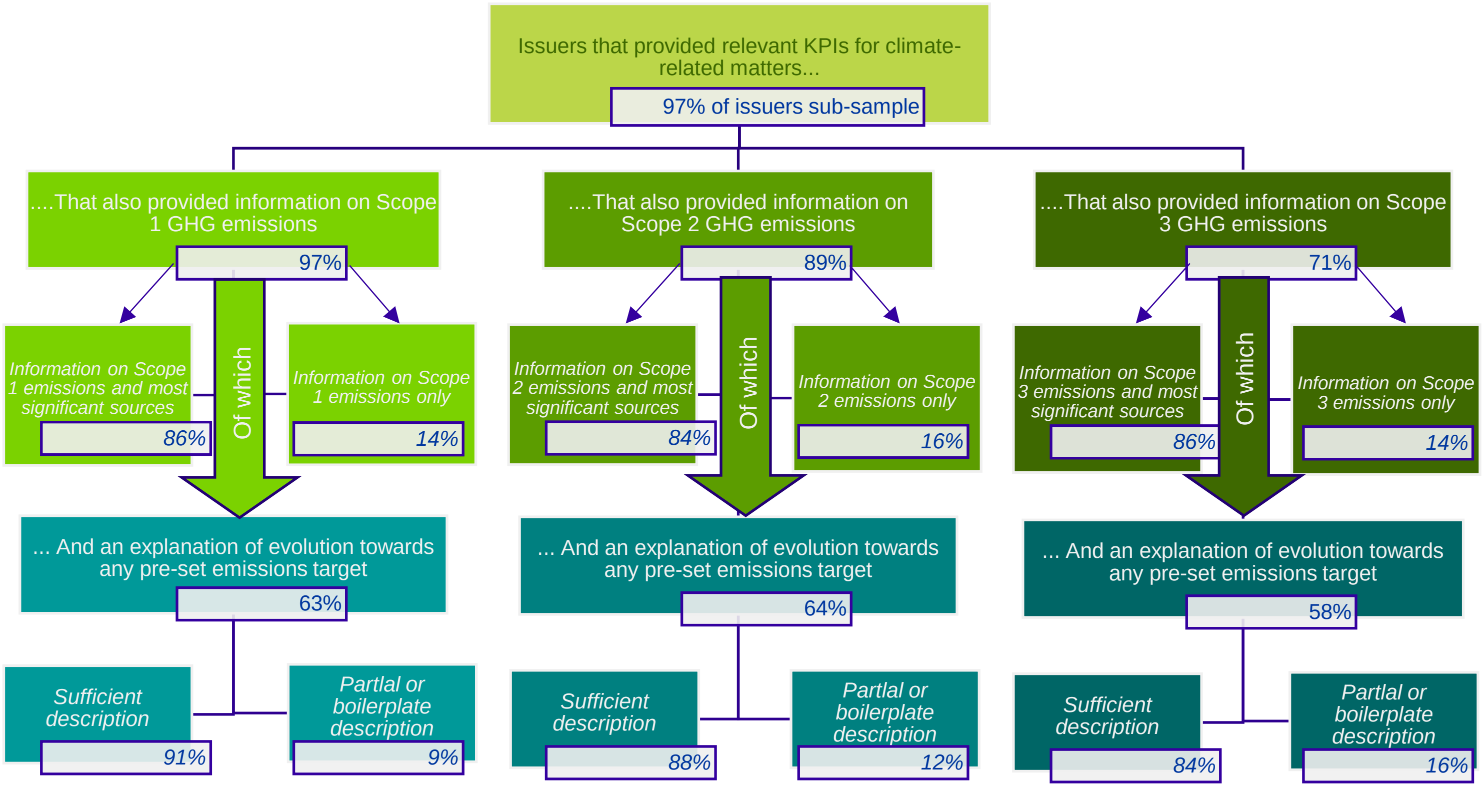
156. 97% of issuers included relevant KPIs for climate-related matters in the non-financial statement. For these issuers, the following table outlines where issuers provided detail on their GHG emissions.

Table 15 *– Details on GHG Emissions Information*

% of issuers	Sufficient description	Partial or boilerplate description	No description
Segmented information, e.g., by country / region of operations, by business segment	49%	7%	44%
Accompanying qualitative or quantitative explanations of how the issuer performed compared to its pre-defined targets	59%	11%	30%
% of issuers	**Yes – emissions' reduction is aligned with the 2015 Paris Agreement**	**Not directly mentioned, but targets are consistent with the 2015 Paris Agreement**	**Cannot be determined**
Issuer's emission patterns are aligned with the 2015 Paris Agreement	46%	23%	31%

157. In the 2021 ECEP, ESMA emphasised the importance of providing information on Scope 1, Scope 2 and, where reliable data is available, Scope 3 emissions at the reporting date, as well as the explanation of their evolution towards the achievement of any pre-set emissions target, along with providing information on the most significant sources of the disclosed GHG emissions. Among the 97% of issuers that included relevant KPIs for climate-related matters in the non-financial statement, the following figure breaks down the extent to which these issuers also provided information on Scope 1, 2 and 3 GHG emissions and target progress. ESMA notes diversity in level of disclosure, with close to two-thirds of issuers that provided information in each scope category also providing some level of explanation regarding evolution towards any pre-set emissions target.

Figure 14: Level of information provided on Scope 1, 2 and 3 GHG emissions



158. ESMA also assessed the extent to which forward-looking climate-related disclosures were provided as opposed to only backward-looking information. 90% of the issuers in the sample provided forward-looking information on how the issuer intends to progress in relation to climate-related matters, however, of those entities 19% provided disclosures which were deemed to be partial or too generic. For the other issuers, the information was considered sufficient and mainly based on scenario analysis with different targets in terms of average temperature increase and time horizons.

159. 63% provided some level of information that would allow users of non-financial statements to understand the financial consequences of the issues arising from climate-related matters (46% provided both qualitative and quantitative information about financial consequences of climate-related issues, and 52% and 2% provided only qualitative and quantitative information, respectively). The information disclosed included considerations such as cost savings of energy efficiency actions, fines related to non-compliance with environmental laws and regulations and risks related to operating cost overruns due to CO2 emissions or natural disasters or loss of income due to decreased demand.

Enforcement actions

160. Enforcers took 12 enforcement actions in relation to disclosures on climate-related matters, or lack thereof, in 2021 non-financial statements, by requiring one corrective note (1 action) and by requiring corrections in the future non-financial statement (11 actions). The enforcer who required the issuer to publish a corrective note directed the issuer to disclose additional information regarding its sustainable accounting policies to accompany existing sustainability data disclosed. The corrections in future non-financial statement related to the issuers being asked to disclose additional information on climate-related matters, as they pertain to environmental policies, reporting perimeter, KPI and objectives, GHG emissions segmentation and Scope 1, 2 and 3 breakdowns.

161. Other measures related, among other topics, to the need for additional explanations on issuers' phases of the value chain, consistency of information provided on issues related to climate, method of KPI calculation, presentation of risks and opportunities of environment-related policies and information regarding issuers' evolutions towards emissions targets set in 2021.

162. Eleven examinations are currently ongoing.

4.3.2 Disclosures relating to Article 8 of the Taxonomy Regulation

Analysis of information provided

Key Finding: Undertakings still need to take steps to ensure a good level of preparedness for alignment reporting related to Article 8 of the Taxonomy Regulation

In relation to Article 8 disclosures, ESMA has noted that a large proportion of the issuers in the sample have provided the required disclosures on eligibility even though some further analysis is ongoing to assess the lack of disclosures either in relation to the full set of eligibility information or to parts thereof (for example, some entities did not disclose non-eligible activities or disclosed only non-eligible activities, other entities did not provide the proportion of operating expenditures relating to their taxonomy-eligible activities).

ESMA emphasises that the evidence from the review of the ECEP 2021 highlights that steps still need to be taken to ensure that undertakings are well-prepared for the alignment reporting which has become applicable to non-financial undertakings for the financial year 2022. ESMA therefore encourages undertakings to make the necessary preparations for the upcoming reporting season well on time to be able to comply with the alignment requirements in their next non-financial statements.

163. 88% of issuers in the sample provided disclosures regarding Article 8 of the Taxonomy Regulation (TR), with 80% of these issuers indicating that they have undertaken the

Taxonomy-eligibility assessment identifying taxonomy-eligible activities. Further information in this section is provided for this sub-sample of issuers. For the remaining issuers in the sample which did not provide Article 8 disclosures, further analysis is ongoing.

164. The following table summarises where the sub-sample of the 80% of issuers which have provided disclosures of the proportion of their activities that are considered Taxonomy-eligible and non-eligible, with most issuers identifying both eligible and non-eligible activities across the three dimensions of turnover, capital expenditure (CapEx) and operating expenditure (OpEx):

Table 16 *- Disclosures of Taxonomy-Eligibility*

% of issuers	Turnover	CapEx	OpEx	Issuers disclosing KPIs specific to financial undertakings
No KPI because the issuer indicates to use the materiality exemption	-	-	4%	-
No KPI disclosed	1%	1%	7%	15%
Only eligible	18%	19%	13%	-
Only non-eligible	4%	1%	1%	-
Yes, both eligible and non-eligible	76%	78%	74%	85%

165. For 78% of issuers with taxonomy-eligible activities, their non-financial statement disclosed qualitative information related to the process of identifying eligible economic activities and of calculating financial metrics (turnover, Capex and OpEx related to eligible activity).

166. With respect to instances where the non-financial statement contained voluntary disclosures under Article 8 of the TR:

- 14% of issuers made such disclosures in relation to the proportion of their turnover derived from products or services associated with Taxonomy-aligned economic activities. Among the main aspects disclosed in this respect are specific information on split in turnover per segment or product group.

- 14% of issuers made such disclosures in relation to the proportion of their CapEx related to assets or processes associated with Taxonomy-aligned economic activities.

- 11% of issuers made such disclosures in relation to the proportion of their OpEx related to assets or processes associated with Taxonomy-aligned economic activities.

- 21% of issuers in the sample are financial undertakings. 24% of such issuers made disclosures containing KPIs or other information in addition to those required for the 2021 financial year. Among others, disclosures included references to additional indicators (sustainability, waste management, emissions, eco-efficiency and sustainable resource usage), and considerations for activities with all non-financial counterparties, including those non-EU, and therefore not subject to NFRD.

- For most of the aforementioned issuers in this sub-sample, the accompanying information in the non-financial statement provides sufficient transparency on the calculation methodologies for any additional KPIs presented and the issuer's rationale for disclosing such information that is additional to that required.

167. Only 36% of issuers with Taxonomy-eligible activities provided some indications in their non-financial statement on how the issuer is preparing to comply with the full set of requirements under Article 8 of the TR. While most of these disclosures remain high-level, some of the actions noted include developments that will allow the issuer to enhance the information collection process from counterparties or through data obtained from external providers.

Enforcement actions

168. Enforcers took four enforcement actions in relation to issuers' disclosures relating to Article 8 of the TR, or the lack thereof, in 2021 non-financial statements, all by requiring a correction in the future non-financial statement. The corrections in the future non-financial statements relate, among other topics, to the need to elaborate on the presence of all three elements required for the use of the materiality exemption for the KPI relating to operating expenditures, to provide detailed disclosure of the proportion of the issuer's activities that are considered Taxonomy-eligible and non-eligible in turnover, in CapEx and in OpEx and to enhance transparency regarding Taxonomy-eligible aggregates for revenue and CapEx. Some enforcers, instead of taking enforcement actions, issued written recommendations to issuers or carried out extended surveys assessing the application of the TR across issuers.

169. Twelve examinations are currently ongoing.

4.3.3 Impacts of the COVID-19 pandemic

Analysis of information provided

Key Finding: Aspects of the consequences of COVID-19 on non-financial matters are discussed, but disclosures are incomplete regarding the impact of the pandemic on sustainability-related goals
In the 2021 ECEP, ESMA highlighted the continued relevance of the pandemic with respect to non-financial matters and, in particular, of the risk that it may impair the issuer's ability to meet any pre-determined sustainability-related goals in the short and medium term and trigger the development of new targets or the adjustment of existing ones. ESMA welcomes the fact that the vast majority of issuers addressed either in the non-financial statement or elsewhere in the management report the challenges posed to the business by COVID-19. *However, ESMA regrets that for more than one third of these issuers it was not possible to understand how the consequences of the COVID-19 pandemic are affecting their plans to meet sustainability-related goals. Even when information was provided, it addressed mostly the measures put in place to ensure safety at work and vis-à-vis customers, but it did not generally shed light on the extent to which the challenges posed by COVID-19 could harm the resilience of the undertakings to environmental or social issues.*

170. ESMA observed that 71% of the issuer sample considered the consequences of the COVID-19 pandemic on the issuer's business and activities in their non-financial statements, while 21% of the issuer sample presented such information elsewhere in the management report. The remainder of issuers included no such information in their non-financial statements; in these instances, enforcers identified that these were not material considerations to the issuer's business and activities.

171. In 43% of instances where issuers provided a description of COVID-19 impacts in the non-financial statement, issuers provided sufficient explanations of how the consequences of the COVID-19 pandemic are also affecting the issuer's plans to meet any sustainability-related goals that the issuer previously set out, including updates to targets on emission reduction, waste reduction and energy consumption. An additional 10% of issuers provided only partial or selective explanations in their non-financial statements, while 15% of issuers did not include any such information but explained the reason for the omissions, largely due to COVID-19 having no material impact on the issuer. Finally, 33% of such issuers did not supply any information or explanation for omitting a presentation of this topic in their non-financial statements.

172. Among the issuers that disclosed explanations of how the consequences of COVID-19 affect the issuer's plans to meet any established sustainability-related goals, 70% of issuers also provided some explanations in their non-financial statements whether the issuer adjusted such goals or determined any new ones, such as additional long-term

targets. However, ESMA notes that these explanations remain high-level. The remaining 30% of issuers did not include such information, nor explain the omission.

173. 62% of the issuer sample provided sufficient information in the non-financial statement of how the issuer foresees the development of its business in response to the pandemic, notably information around how issuers plan to direct present and future projects towards new business lines in response to the pandemic, but also to meet other strategic objectives, as well as business continuity considerations. 11% of issuers provided only partial or boilerplate descriptions, 16% of issuers presented such descriptions elsewhere in the management report, while the remaining issuers did not disclose any such information.

174. Among the issuers that considered the development of their business in response to the pandemic in their non-financial statements, 68% provided sufficient explanations of any foreseen structural changes to the way the business operates and the way the issuer arranges the working conditions of its employees, pointing to considerations such as improvements in working capital adequacy, hedging policies to reflect the circumstances caused by COVID-19 and hybrid work models. The other such issuers did not provide sufficient descriptions or did not provide any descriptions at all.

175. Half of the issuers provided information in their non-financial statements about whether COVID-19 has had any material effects on non-financial KPIs, highlighting some variation of some environmental and workforce KPIs resulting from COVID-19 impacts (such as Global Energy Interconnection emissions, energy consumption, employee temporary reduction or turnover, health and safety). The other half of issuers did not disclose such information, largely because the issuers did not deem this to be a material consideration.

176. For 20% of the issuers in the sample, enforcers indicated that new non-financial KPIs had been developed to reflect the long-term effects of the pandemic. Among this sub-sample, only 30% included sufficient descriptions of such new KPIs, including such considerations as percentage of teleworkers, Scope 3 emissions in the calculation of the issuer’s 2021 carbon footprint and average percentage of annual time in which employees were affected by temporary employment regulation measures. The remaining issuers either did not make such disclosures or indicated that this was omitted because COVID-19 had no material impact on the issuer.

Enforcement actions

177. Enforcers took one enforcement action in relation to the disclosure regarding the impact of the COVID-19 pandemic, or lack thereof, in the 2021 non-financial statements by requiring a correction in the future non-financial statement. The correction relates to the inclusion of broader descriptions of the impact of COVID-19 on employee matters.

178. Other measures applied by enforcers relate to recommendations to one issuer to disclose in future non-financial statements information regarding the impacts of COVID-19, such as whether measures taken regarding teleworking or online educational material have been established on a transitional or on a permanent basis.

179. Nine further examinations are currently ongoing.

4.4 ESMA's other activities related to non-financial reporting

4.4.1 Observership at EFRAG and Opinion on ESRS

180. In 2022, ESMA became an observer on the EFRAG Sustainability Reporting Technical Expert Group and Board. The newly established sustainability reporting pillar in EFRAG is tasked with preparing the technical advice to the European Commission on European Sustainability Reporting Standards (ESRS). Through its observership, ESMA monitors the development of the future ESRS and contributes its views from an enforcement perspective, notably on topics such as investor protection and alignment with other EU legislation and with international standard-setting.

181. The CSRD requires the European Commission to request ESMA and other European public bodies to deliver an opinion on the draft ESRS prepared by EFRAG prior to adopting them into delegated acts. In the course of 2022, ESMA developed an ad-hoc assessment framework based on which it developed its opinion[48] on the first set of draft ESRS. ESMA submitted its opinion to the Commission on 26 January 2023.

4.4.2 International cooperation

182. ESMA engaged in discussions on non-financial reporting and its supervision and enforcement with various relevant non-EU bodies during 2022. These discussions included dialogue with the International Sustainability Standards Board (ISSB), the GRI, the US SEC and participation in the Technical Experts Group of IOSCO's Sustainable Finance Task Force.

[48] ESMA32-334-589, Opinion on the technical advice by the European Financial Reporting Advisory Group on European Sustainability Reporting Standards (Set 1), 26 January 2023. The assessment framework is included in the opinion as Annex 2.

5 ESEF reporting

5.1 How is ESEF reporting enforced

5.1.1 Legislative context

183. In 2013, the Transparency Directive was amended to include a requirement for issuers to prepare their annual financial reports in a single electronic reporting format. ESMA was assigned the responsibility to develop regulatory technical standards (RTS) to specify this electronic reporting format.

184. The RTS on the European Single Electronic Format (ESEF)[49] specifies that all issuers subject to the requirements contained in the Transparency Directive to make public annual financial reports, shall prepare annual financial reports in the Extensible Hypertext Markup Language (XHTML) format. Where the issuer prepares IFRS consolidated financial statements, it shall mark up these IFRS consolidated financial statements using the XBRL markup language. The markups shall be embedded in the XHTML document version of the annual financial report using the Inline XBRL (iXBRL) format.

185. For financial years beginning on or after 1 January 2020, all annual financial reports shall be prepared in ESEF. However, following an amendment to the Transparency Directive, issuers in most Member States were allowed to delay application of ESEF by one year. Therefore, in practice, the compliance with the ESEF requirements (XHTML and XBRL) in all Member States as a whole only took place for financial years beginning on or after 1 January 2021, except for the requirement to mark up the notes of the IFRS consolidated financial statements, which is applicable to financial years beginning on or after 1 January 2022.

5.1.2 Coordination activities on ESEF

186. The ESEF Working Group (ESEF WG) is a group of the Corporate Reporting Standing Committee (CRSC) that coordinates supervisory convergence of the enforcement related to the correct application of the RTS on ESEF. The ESEF WG prepares updates of the RTS on ESEF on a yearly basis, if relevant, and develops the ESEF Reporting Manual, which contains further guidance for issuers and software vendors to facilitate the correct application of the requirements arising from the RTS. In the working group, enforcers exchange views regarding the correct application of the RTS on ESEF and share practices regarding methods for supervising the correct application of ESEF.

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[49] Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format.

5.2 Main indicators of national enforcement activity

187. To monitor enforcement activity, ESMA collects data on the number of examinations performed and the number of actions taken by enforcers. The examination and action rates presented in this section are based on the number of listed issuers at the end of 2021, which prepared annual financial reports (AFRs) containing either:

- IFRS consolidated financial statements with the ESEF format,
- non-consolidated IFRS financial statements with the ESEF format (iXBRL mark-ups on a voluntary basis) or,
- financial statements in XHTML format without mark-ups (IFRS individual financial statements and statements in local GAAP).

188. Enforcement activities are divided into Transparency Directive high level examinations and ESEF RTS granular requirements examinations. The scope for Transparency Directive high level examinations is both AFRs in XHTML format without mark ups and annual financial reports with iXBRL mark-ups. Transparency Directive high level examinations refer to the compliance with the ESEF RTS provisions commonly applicable to all issuers which are mostly related to IT requirements such as verifying that the submitted file extension meets the expected format (i.e., XHMTL or zip file) or the content of the XHTML file. In contrast, the ESEF RTS granular examinations are examinations that apply to AFRs that have been tagged with iXBRL mark-ups (excluding AFRs tagged with a local GAAP taxonomy). ESEF RTS granular requirements examinations refer to compliance with detailed IT and accounting requirements stemming from the ESEF RTS and implementing guidance. In these examinations, IT requirements refer to detailed technical and software examinations such as validations against iXBRL specifications or compliance with ESMA's Conformance Suite, whereas accounting requirements refer to the assessment on the completeness and correctness of tagging of the IFRS consolidated financial statements.

189. Checking compliance with IT requirements is usually a "binary validation" (i.e., issuers are either compliant or non-compliant). IT requirements can be examined automatically or manually. Automatic examinations are performed by IT tools set up by Officially Appointed Mechanisms (OAMs) and/or National Competent Authorities (NCAs) to perform automatic IT validations or checks regarding the IT requirements applicable to ESEF reports when those are formally submitted or filed with the OAM or the NCA.

190. Automatic examinations do not per se entail human intervention and interaction between the enforcer and the issuer. For the purpose of this report, enforcement activities are considered to involve human intervention. When there is human intervention but no interaction between the enforcer and the issuer (such as by following-up or reviewing on validation errors or warnings from an automatic examination report, performing additional checks or assessing documentation), these examinations are so-called desktop

examinations. When, in addition, there is an interaction between the enforcer and the issuer (such as asking questions and/or requiring documents from the issuer), these examinations are so-called interactive examinations.

191. The following sections provide detailed information on the automatic examinations as well as on the enforcement activities (desktop and interactive examinations) performed by OAMs and/or NCAs during 2022 for 2021 AFRs. Furthermore, as ESEF requirements were mandatory for the first time in 2021 in all EU Member States, it also describes the testing environment set up by some EU jurisdictions.

5.2.1 Testing environment

192. In 16 of 28 EU jurisdictions, OAMs and/or NCAs provided issuers with an ESEF pre-examination testing environment during 2022. The goal was to simulate the submission process, respond to questions and enable issuers to be better prepared to meet ESEF requirements. Before the formal final submission of the 2021 annual financial reports, issuers could submit the ESEF reports as many times as necessary to check compliance with IT requirements and address the possible errors or warnings received.

193. In 2022, the approximate percentage of issuers that utilised the pre-examination test environment for the submission of their 2021 annual financial reports averaged 51% across the sixteen applicable jurisdictions. However, ESMA observes a diversity of usage per jurisdiction, ranging from 3% to almost 100% of issuers.

5.2.2 Automatic examinations

194. Automatic examinations are performed by IT tools set up by OAMs and/or NCAs. These IT validation tools perform validation checks and produce a validation report on the examined ESEF reports which is either downloadable from the system or directly provided by the tool to the issuer or, in few cases, transferred by the NCA to the issuer. The validation report might be without remarks or might include errors or warnings. In some jurisdictions, the NCA/OAM has decided to refuse ESEF filings which are classified invalid by the automatic tool, based on reasons including, but not limited to, virus checks, unaccepted file extensions, wrong structure of zip files, non-conforming naming convention, executable or active content, invalid LEI formats, etc. In these cases, preparers are requested to correct the errors and resubmit the ESEF files.

195. Automatic examinations can be applied both to the Transparency Directive high level IT requirements such as verifying that the submitted file extension meets the expected format (i.e., XHMTL or zip file), as well as to specific IT requirements contained in the ESEF RTS such as verifying that the submitted file complies with the ESMA Conformance Suite.

196. ESMA observes that, during 2022, the Transparency Directive high level IT requirements have been examined for almost 100% of the issuers. Half of such examinations are automatic examinations, while the other half are desktop examinations. Additionally, ESMA also observes that when issuers are subject to Transparency Directive high level IT automatic examinations, half of them are simultaneously subject to ESEF RTS granular IT automatic examinations.

197. Automatic validations as well as automatic communications with issuers, such as an automatic submission or transfer by the NCA of the validation report, are considered separately from the enforcement activity that is outlined in the following section, which summarises aggregated information from enforcers for desktop examinations and interactive examinations performed in 2022.

5.2.3 Desktop and interactive examinations

198. Table 17 below presents aggregated information on the number of issuers whose financial information was subject to Transparency Directive high level examinations with human intervention by enforcers over 2022. As can be seen, in 2022 enforcers performed desktop examinations of the financial statements for 2,079 issuers (approximately 48% of all applicable issuers). In addition, the financial statements of 344 issuers were subject to interactive examinations (approximately 8% of all applicable issuers).

Table 17: *Number of listed entities where Transparency Directive high level examinations were performed for the purpose of ESEF*

	Number of issuers examined in 2022		**Total**
	Desktop	*Interactive*	
AFRs containing IFRS consolidated financial statements	1,584	257	**1,841**
Issuers incorporated in a third country preparing AFRs containing IFRS consolidated financial statements	40	16	**56**
AFRs containing IFRS non-consolidated financial statements prepared in ESEF (with iXBRL mark-ups on a voluntary basis)	33	0	**33**
AFRs prepared in xHTML (stand-alone financial statements without iXBRL marks-ups) [50]	422	71	**493**
Total 2022	**2,079**	**344**	**2,423**

199. As detailed further in Table 18, the 2,423 desktop and interactive examinations performed in 2022 in relation to compliance with Transparency Directive high level

[50] For the performance of Transparency Directive high level examinations, financial statements prepared in local GAAP that are marked-up with a local taxonomy are also included in the number count.

requirements regarding ESEF led to enforcement actions taken for 252 for all applicable issuers. Out of these, 163 actions were taken for issuers incorporated in the European Economic Area (EEA) or in a third country preparing IFRS consolidated financial statements with iXBRL mark-ups, causing an action rate of 9%, and 89 actions were taken for listed issuers preparing financial statements in XHTML format without mark-ups (i.e., IFRs individual financial statements and statements in local GAAP), causing an action rate of 18%. Most of these actions required the issuer to resubmit/re-disseminate the ESEF annual financial report.

200. A total of 227 resubmission or re-dissemination actions for all applicable issuers in 2022 results from the need for correction of ESEF requirements following an NCA's request. Out of these, 149 (66%) resubmit/re-disseminate actions were taken for issuers incorporated in the EEA or in a third country preparing IFRS consolidated financial statements with iXBRL mark-ups, and 78 (34%) resubmit/re-disseminate actions were taken for listed issuers for listed issuers preparing financial statements in XHTML format without mark-ups. Correction in the future financial statements (total of 24 actions for all applicable issuers in 2022) is a communication from the enforcer to the issuer to rectify an error in the future ESEF annual financial reports. Other measures (total of 52 measures for all applicable issuers in 2022) taken by national enforcers were official letters reminding them to comply with all ESEF requirements including format, deadlines and audit requirements and also, written requests to clarify what the official ESEF AFR version is and/or includes disclaimers in the PDF version of the AFR published in the issuer's website clarifying that this is not the version in compliance with the Transparency Directive.

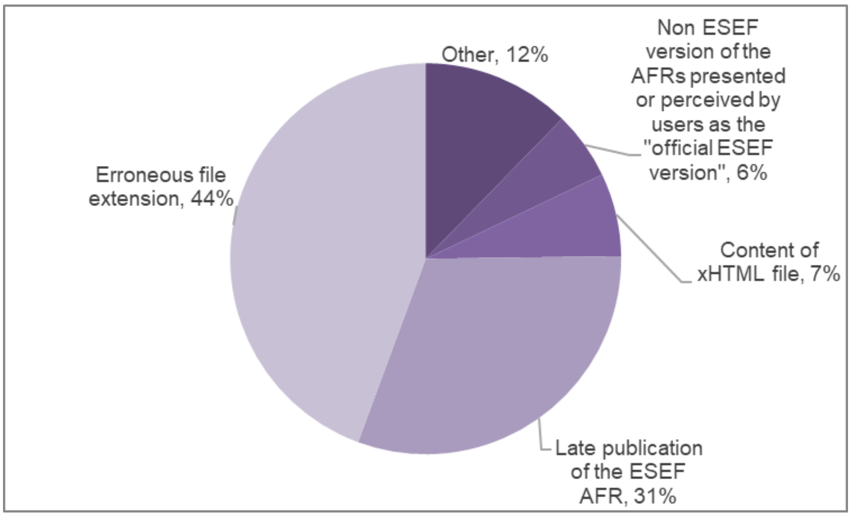
Table 18*: Issuers for which actions were taken based on examinations of Transparency Directive high level requirements*

	Issuers for which enforcement actions were taken based on examinations of ESEF requirements				**Total**
	EEA IFRS consolidated financial statements	*Issuers incorporated in a third country preparing IFRS consolidated financial statements*	*IFRS non-consolida-ted financial statements prepared with iXBRL mark-ups*	*Other AFRs in XHTML*	
Require a resubmission/ re-dissemination of the ESEF AFR	121	28	0	78	***227***
Require a correction in future ESEF AFR	13	0	0	11	***24***
Require a public corrective note	1	0	0	0	***1***
Total 2022	**135**	**28**	**0**	**89**	**252**
Other measures	27	0	0	25	52

Note: Table includes one action respectively one measure per issuer (meaning that multiple actions respectively multiple measures are not possible for the same issuer)

201. The following figure 15 illustrates specific errors with respect to compliance with Transparency Directive high level requirements on which enforcement actions were taken during 2022. Percentages are calculated in relation to the total number of actions taken in relation to each error, meaning that more than one action can be depicted per issuer. When the ESEF report was submitted late, the action is the submission request to the issuer. Nevertheless, for comparability purposes, the request for submission and resubmission of the ESEF reports are counted in the same group of actions.

Figure 15: *Areas of compliance with Transparency Directive high level requirements addressed with enforcement actions in 2022*



202. Table 19 below presents aggregated information on the number of issuers preparing financial statements with iXBRL mark-ups subject to ESEF RTS granular requirements ex-post examinations by enforcers over 2022. On the technical and software examinations side, in 2022 enforcers performed 559 desktop examinations representing 13% of the financial statements of applicable issuers. In addition, the financial statements of 85 issuers were subject to interactive examinations representing 2% of the total applicable issuers. For accounting examinations, the financial statements of 345 applicable issuers were subject to desktop examinations and 88 were subject to interactive examinations representing, respectively, 8% and 2% of the total applicable issuers.

Table 19: Number of listed entities where ESEF RTS granular requirements ex-post examinations were performed

	Number of issuers				Total
	Technical and Software examinations		Accounting examinations		
	Desktop	*Interactive*	*Desktop*	*Interactive*	
Ex-post examinations					
AFRs containing IFRS consolidated financial statements	525	81	314	86	**1,006**
Issuers incorporated in a third country preparing AFRs containing IFRS consolidated financial statements	4	4	2	2	**12**
Issuers preparing AFRs containing non-consolidated IFRS financial statements prepared with iXBRL mark-ups on a voluntary basis	30	0	29	0	**59**
Total 2022	**559**	**85**	**345**	**88**	**1,077**

203. As detailed further in Table 20 below, the 1,077 desktop and interactive examinations in 2022 of issuer's IFRS financial statements in relation to compliance with ESEF RTS granular requirements led to enforcement actions taken for 39 issuers, causing an action rate of 4%. Most actions required the issuer to include a correction in the future AFR. Being the first year of implementation of the ESEF requirements in most countries, several enforcers implemented a flexible and pedagogic approach, which explains, in part, the rather low action rate. Moreover, in those jurisdictions when formal enforcement procedures have been launched, several of them have not been finalised yet.

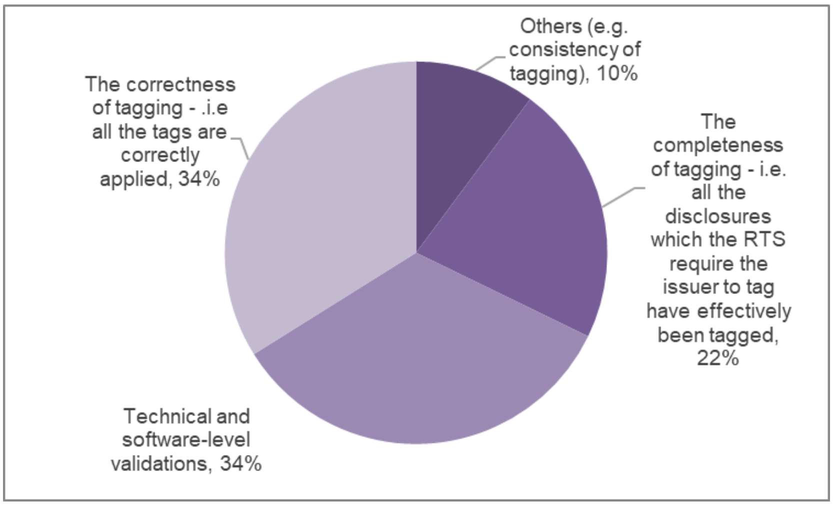
Table 20: Actions taken based on examinations of ESEF RTS granular requirements

	Actions taken based on examinations of ESEF requirements			Total
	EEA IFRS consolidated financial statements	*Issuers incorporated in a third country preparing IFRS consolidated financial statements*	*IFRS non-consolidated financial statements prepared with iXBRL mark-ups*	
Require a resubmission/r e-dissemination of the AFR	14	1	0	**15**
Require a correction in future AFR	24	0	0	**24**
Require a public corrective note	0	0	0	**0**
Total 2022	**38**	**1**	**0**	**39**
Other measures	4	0	17	21

Note: Table includes one entry per issue (meaning that multiple actions are possible for the same issuer)

204. The following figure 16 illustrates specific errors with respect to compliance with ESEF RTS granular requirements, on which enforcement actions were taken during 2022. Percentages are calculated in relation to the total number of actions taken in relation to each error, meaning that more than one action can be depicted per issuer.

Figure 16: *Areas of compliance with ESEF RTS granular requirements addressed with enforcement actions in 2022*



5.3 ESMA's other activities related to ESEF reporting

205. In June 2022, ESMA published a technical update (draft RTS)[51] of the ESEF Regulation (Commission Delegated Regulation 2019/815) to update the taxonomy that issuers shall use in course of the preparation of their annual financial reports, and thereby incorporated in the ESEF Regulation the 2022 IFRS Taxonomy as prepared by the IASB. The technical update was endorsed by the European Commission and the co-legislators and published in the Official Journal on 30 December 2022.

206. In August 2022, ESMA updated the ESEF Reporting Manual[52] aimed at all market participants involved in the implementation of the requirements set out in the ESEF Regulation. The Manual was originally published by ESMA in December 2017 and is intended to provide guidance on issues commonly encountered when creating ESEF documents and to promote a harmonised and consistent approach for the preparation of the AFRs in compliance with the ESEF Regulation.

207. In December 2022, as in previous years, ESMA updated the XBRL taxonomy files to be used for ESEF.[53] The 2022 version of the XBRL taxonomy files reflects the version of the IFRS taxonomy included in the updated ESEF Delegated Regulation (i.e., the 2022 ESEF taxonomy).

208. ESMA also updated, in December 2022, the Conformance Suite test files[54], published for the first time in March 2020, to facilitate implementation of the requirements set out by the ESEF RTS. The ESEF Conformance Suite is aimed primarily at a technical audience

[51] ESMA32-60-850 Final Report on the draft RTS amending Delegated Regulation (EU) 2019/815 as regards the 2022 update of the taxonomy laid down in the RTS on ESEF, 6 June 2022
[52] ESMA32-60-254rev ESEF Reporting Manual, August 2022
[53] 2022 ESEF XBRL taxonomy files, ESEF Taxonomy 2022 (europa.eu)
[54] 2022 ESEF Conformance Suite, ESEF Conformance Suite, December 2022

(i.e., XBRL software developers), as a way to test and provide assurance that software tools are able to create and/or consume filings which are in line with all ESEF requirements. In particular, the Conformance Suite enables the determination of whether a software can detect and flag infringements to the ESEF requirements contained in a filing.

209. ESMA expects that in the future, as the IFRS evolve, the IFRS Taxonomy will evolve as well and therefore the ESEF Regulation – via updates to the RTS on ESEF – as well as the ESEF XBRL Taxonomy files and the ESEF Conformance Suite will need to be updated accordingly.

210. Finally, considering the CRSD requirement to provide the management report in the electronic format of article 3 of the ESEF RTS (i.e., XHTML) and the sustainability report, including Article 8 Taxonomy disclosures, to be marked up according to ESEF (i.e., iXBRL), ESMA started to closely follow up on the development of the sustainability taxonomy by EFRAG with the aim to amend the ESEF RTS and incorporate the new sustainability taxonomy and related electronic reporting requirements.

6 Annexes

6.1 Annex 1: List of enforcers

Country	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	HANFA
Cyprus	Cyprus Securities and Exchange Commission	CySEC
Czech Republic	Czech National Bank	CNB
Denmark	Danish Financial Supervisory 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	BaFin
Greece	Hellenic Capital Market Commission	HCMC
Hungary	Central Bank of Hungary	MNB
Iceland	Central Bank of Iceland Directorate of Internal Revenue	CB RSK
Ireland	Central Bank of Ireland[55] Irish Auditing and Accounting Supervisory Authority	CBI IAASA
Italy	Companies and Securities National Commission	Consob
Latvia	Financial and Capital Markets Commission[56]	FCMC

[55] While CBI is the national administrative competent authority represented in ESMA's Board of Supervisors, IAASA has been designated as the sole competent authority for carrying out the obligations in Article 24(4)(h) of the Transparency Directive.
[56] As of 1 January 2023, the Financial and Capital Markets Commission (FCMC) was incorporated into the Central Bank of Latvia (CBL).

Country	Enforcer	Abbreviation
	Central Bank of Latvia	CBL
Liechtenstein	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	Norwegian 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 Council for Swedish Financial Reporting Supervision	Swedish FSA SFRS

6.2 Annex 2: Number of IFRS issuers per EEA country[57]

Country	Consolidated IFRS financial statements				Non-consolidated IFRS financial statements		Total IFRS Issuers	
	Issuers of equity		Issuers of bonds and securitised debt					
	2021	2022	2021	2022	2021	2022	2021	2022
Austria	57	56	24	22	0	0	81	78
Belgium	108*	104	2	2	2	2	112	108
Bulgaria	107	109	15	18	172	156	294	283
Croatia	65	63	6*	5	31*	27	102	95
Cyprus	52	50	0	0	16	13	68	63
Czech Republic	17	16	10	8	45	51	72	75
Denmark	106	108	18	14	14	14	138	136
Estonia	21	21	4*	3	6*	7	31	31
Finland	132	130	20	25	0	0	152	155
France	375	351	21	21	7	9	403	381[58]
Germany	381	364	30	29	5	6	416	399
Greece	119*	117	4*	5	27*	28	150	150
Hungary	30*	32	3*	3	15*	16	48	51
Iceland	19*	20	6*	6	11*	16	36	42
Ireland	27	23	3	5	59	56	89	84
Italy	210	201	4	4	9	11	223	216
Latvia	6	5	7	7	3*	2	16	14
Lithuania	23	21	2*	4	4*	5	29	30
Luxembourg	46	48	28	21	38	40	112	109
Malta	24	27	21	23	27	30	72	80
Netherlands	129	126	10	9	40	35	179	170
Norway	189	194	58	60	26	30	273	284
Poland	309	299	2	2	53	52	364	353
Portugal	36*	36	9	9	3	3	48	48
Romania	41	42	6	8	42	41	89	91
Slovakia	13	10	7	7	8	7	28	24
Slovenia	21	22	0	1	0	2	21	25
Spain	129	123	3	5	0	0	132	128
Sweden	362	357	33	30	0	0	395	387
TOTAL	3,154	3,075	356	356	663	659	4,173	4,090

*The figure differs from the corresponding figure in the 2021 report as it has been updated by the respective NCA post-publication.

[58] The total number of issuers for France decreased between 2021 and 2022 due to de-listings and transfers to Euronext Growth.

6.3 Annex 3: Number of examinations of IFRS financial statements per EEA country

Notes on the data

Scope

The table below presents the number of examinations performed during 2022 by enforcers on the basis of the Guidelines on Enforcement of Financial Information (GLEFI) (please see Annex 1 for further information regarding the Guidelines). Please note that this data only includes examinations of IFRS financial statements that were concluded during 2022, whereas examinations of IFRS financial statements started in 2022 that were still ongoing at the end of 2022 will be included in next year's report.

Examinations were counted in the table below if they were carried out on the basis of:

- Guideline 4 for pre-clearance examinations, or,
- Guideline 6 for examinations of financial statements and financial information in prospectuses. As regards prospectuses, only examinations of financial statements in prospectuses related to initial public offerings (IPOs) and first admissions to trading are counted in these statistics (if the issuer's listing was eventually not successful, even if the financial information in the prospectus was examined, the examination is not counted).[59]

Comparability

ESMA highlights that various factors may affect the comparability of the numbers in the table. While all enforcers undertake ex-post examinations of annual consolidated financial statements drawn up in accordance with IFRS on the basis of Guideline 6 of the Guidelines on Enforcement of Financial Information, the following differences exist between enforcers:

- Some enforcers do not examine annual separate financial statements or interim consolidated financial statements,
- Some enforcers are able to perform pre-clearances and therefore examine financial statements ex-ante on the basis of Guideline 4 of the Guidelines on Enforcement of Financial Information,
- Some enforcers apply the GLEFI on a voluntary basis for the examination of financial statements contained in IPO prospectuses.

Furthermore, examination procedures across EEA countries depend on the facts and circumstances of each case (type of issuer and complexity of financial statements, type of examination, issues raised, powers at the disposal of the enforcer, time constraints, resources

[59] Please note that the majority of enforcers review financial statements contained in prospectuses as part of their procedures to approve prospectuses. Therefore, when prospectus review is based on the Prospectus Regulation rather than on the Guidelines on Enforcement of Financial Information, they are not taken into account for the purpose of this report.

available and allocation of such resources, etc.). For instance, while all enforcers strive to contribute to the improvement of the quality of financial reporting, the activities they undertake to achieve this objective may also include 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.

In 2022, the revised GLEFI entered into force and therefore four types of examinations (‘desktop focused’, ‘desktop unlimited’, ‘interactive focused’ or ‘interactive limited’) are now in use by enforcers. For the purpose of this report, enforcers have classified their examinations in accordance with these definitions. However, the experience of ESMA’s Peer Review on the application of certain of the Guidelines[60] has shown that those instruments were not applied in the same manner by all enforcers, thus the procedures in place may still not be fully comparable.

Country	**Total exami-nations**	**Disaggregation by type**				**Disaggregation by nature**		
		Unlimited scope		**Focused**				
		Desktop	*Interactive*	*Desktop*	*Interactive*	*Ex-post*	*Financial information contained in prospectus*	*Pre-clearance*
Austria	22		22			22		
Belgium	18		12		6	17		1
Bulgaria	44			44		44		
Croatia	6		6			3	3	
Cyprus	11		3	4	4	11		
Czech Republic	13	4	3	5	1	12	1	
Denmark	14	3	6	4	1	14		
Estonia	5		3		2	3	2	
Finland	19	2	9	1	7	13	6	
France	72	7	45	5	15	64	5	3
Germany	34		16	14	4	34		
Greece	23		21		2	19	4	
Hungary	4		4			4		
Iceland	6		6			6		
Ireland	17		8	1	8	17		
Italy	59	11	29		19	59		
Latvia	7	6	1			4	3	
Lithuania	6	3	2	1		3	3	
Luxembourg	29	3	12	6	8	29		
Malta	7		2		5	7		

[60] ESMA42-111-4138 Peer Review Report, 18 July 2017

Country	Total exami-nations	Disaggregation by type				Disaggregation by nature		
		Unlimited scope		Focused		*Ex-post*	*Financial information contained in prospectus*	*Pre-clearance*
		Desktop	*Interactive*	*Desktop*	*Interactive*			
Netherlands	28	6	14	2	6	28		
Norway	9	4	2	1	2	9		
Poland	56	2	46	2	6	51	5	
Portugal	8		2	4	2	8		
Romania	11		7		4	9	2	
Slovakia	19	19				19		
Slovenia	3		2		1	3		
Spain	28		19		9	26	2	
Sweden	62	3	50	2	7	62		
TOTAL	**640**	**73**	**352**	**96**	**119**	**600**	**36**	**4**

6.4 Annex 4: Number of IFRS issuers for which action was taken per EEA country

Notes on the data

Scope

The table below lists the number of issuers for whom enforcers took action during 2022, with reference to Guideline 7 of the Guidelines of Enforcement of Financial Information which distinguishes between requiring a reissuance of the financial statements, requiring a public corrective note and requiring a correction in the future financial statements.

The purpose of the table is to show how many issuers were subjected to enforcement action in 2022 (rather than to show how many individual actions were taken). Therefore, if more than one action was taken for the same issuer, only the most severe action is counted.

Actions in the table relate to ex-post examinations only and thus do not include pre-clearances and examinations of financial information in prospectuses, which, by their nature, cannot result in the actions defined by the Guidelines.

Comparability

The comparability of the data is restricted by the fact that the use of actions is not fully harmonised in the EEA, including because the legal powers of individual enforcers to use specific actions differ on the basis of national law. Furthermore, the Guidelines allow a certain degree of flexibility in application.

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.

Country	Require a reissuance of financial statements	Require a public corrective note	Require a correction in future financial statement	Total
Austria		5		**5**
Belgium		2	4	**6**
Bulgaria			9	**9**
Croatia				
Cyprus			2	**2**
Czech Republic			7	**7**
Denmark			4	**4**
Estonia				
Finland			6	**6**
France		1	43	**44**
Germany		3	5	**8**
Greece	1	3	1	**5**
Hungary			3	**3**

Country	Require a reissuance of financial statements	Require a public corrective note	Require a correction in future financial statement	Total
Iceland				
Ireland		2	8	**10**
Italy		7		**7**
Latvia				
Lithuania			3	**3**
Luxembourg			17	**17**
Malta		1	1	**2**
Netherlands			4	**4**
Norway	2		2	**4**
Poland	8		17	**25**
Portugal		1	3	**4**
Romania			11	**11**
Slovakia	4			**4**
Slovenia				
Spain	1	5	6	**12**
Sweden			23	**23**
TOTAL	**16**	**30**	**179**	**225**

6.5 Annex 5: Number of issuers publishing non-financial reporting per EEA country

Notes on the data

The table below lists the number of issuers within the scope of enforcement activities for the purpose of Article 19a or Article 29a of the Accounting Directive.

Country	Total issuers publishing non-financial reporting	
	2021	*2022*
Austria	63	61*
Belgium	56	53
Bulgaria	33	33
Croatia	42	42*
Cyprus	12	12
Czech Republic	10	9
Denmark	60	60
Estonia	8	9
Finland	96	97
France	263	253*
Germany	281	280*
Greece	48	46
Hungary	n.a.	n.a.
Iceland	36	42
Ireland		
Italy	170	169
Latvia	6	5
Lithuania	13	14
Luxembourg	38	38
Malta	9	12
Netherlands	80	75
Norway		255
Poland	146	134
Portugal	36	36
Romania	38	35
Slovakia	28	24
Slovenia	12	12
Spain	96	103
Sweden	278	286
TOTAL	**1,958**	**2,195**

** Best-effort estimate*

*** In Ireland, enforcers do not have powers relating to the non-financial statement and in Norway, the Accounting Directive has only recently been transposed into national legislation, effective from the fiscal year beginning on or after 1 July 2021.*