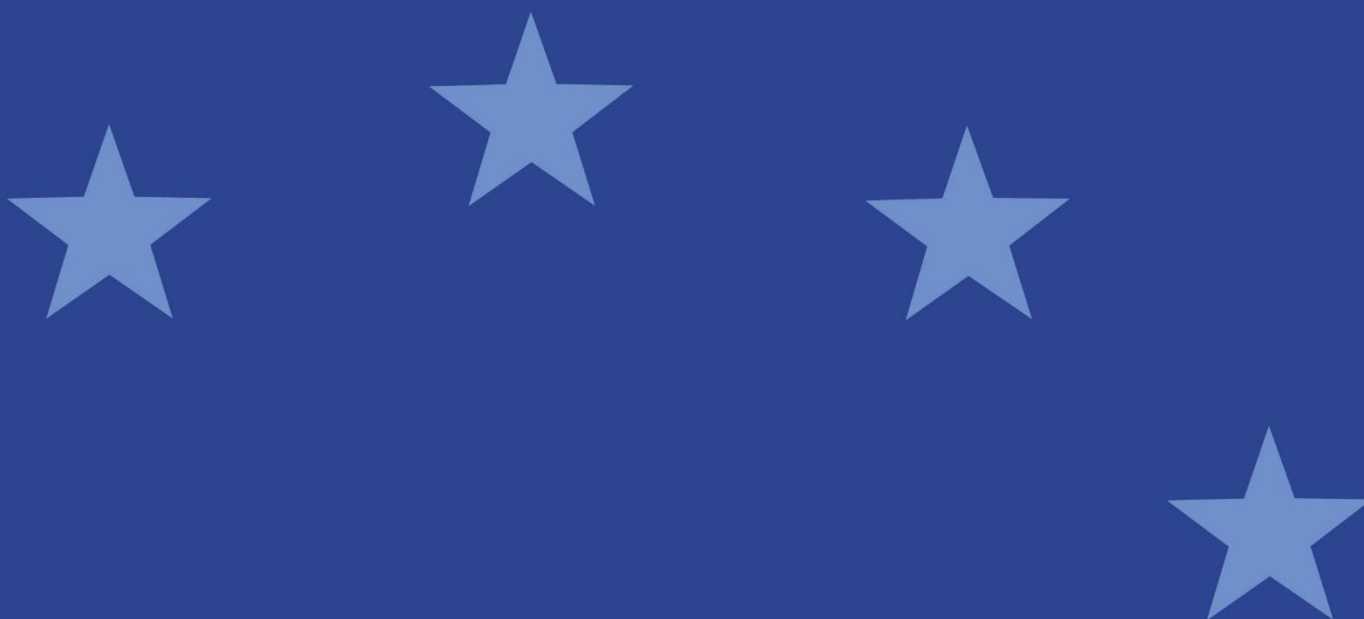


# Report

## Enforcement and regulatory activities of European enforcers in 2019



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## Abbreviations and acronyms

APM	Alternative Performance Measure
CEAOB	Committee of European Auditing Oversight Bodies
CESR	Committee of European Securities Regulators
Commission	European Commission
DTA	Deferred Tax Asset
EAD	Exposition At Default
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
ECEP	European Common Enforcement Priorities
ECL	Expected Credit Loss
ED	Exposure Draft
EEA	European Economic Area
EECS	European Enforcers Coordination Session
EFRAG	European Financial Reporting Advisory Group
EFRAG TEG	European Financial Reporting Advisory Group Technical Expert Group
ESEF	European Single Electronic Format
ESG	Environmental, Social and Governance
ESMA	European Securities and Market Authority
EU	European Union
FVOCI	Fair Value through Other Comprehensive Income
GAAP	Generally Accepted Accounting Principles
IAS	International Accounting Standards
IASB	International Accounting Standards Board



IFRS	International Financial Reporting Standard
IFRS IC	International Financial Reporting Standard Interpretation Committee
IOSCO	International Organization of Securities Commissions
IPO	Initial Public Offering
ISA	International Standards on Auditing
ITCG	IFRS Taxonomy Consultative Group
KPI	Key Performance Indicator
LGD	Loss Given Default
NPL	Non-Performing Loans
PD	Probability of default
RoU	Right of Use
RTS	Regulatory Technical Standards
SICR	Significant Increase in Credit Risk
SPPI	Solely Payments of Principal and Interest
US SEC	United States Securities and Exchange Commission
XBRL	Extensible Business Reporting Language



## 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 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
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)
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
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
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 accounting enforcers in the European Economic Area (EEA), hereafter European enforcers, when examining compliance of financial and non-financial information provided by issuers in 2019.<sup>1</sup> It furthermore presents the main activities contributing to supervisory convergence performed at European level, quantitative information on enforcement activities in Europe as well as ESMA's contribution to the development of a single rulebook in the area of corporate reporting.

## Supervisory convergence

### *Enforcement of financial statements in 2019*

Enforcers undertook 943 examinations of financial statements drawn up under the International Financial Reporting Standards (IFRS), constituting an examination rate of 17% of issuers listed on European regulated markets preparing financial statements under IFRS (the 2018 examination rate was 16%).

Of the 943 examinations undertaken, 900 were undertaken as ex-post examinations and based on these examinations European enforcers took enforcement action against 299 issuers in order to address material departures from IFRS. This represents an action rate of 33%. As in the past, most shortcomings were identified in the areas of accounting for financial instruments, impairment of non-financial assets and presentation of financial statements. Additionally, a number of material departures appeared in relation to issues relating to revenue recognition, reflecting the new requirements under IFRS 15 *Revenue from Contracts with Customers*.

In order to assess the extent to which issuers took into account ESMA's European Common Enforcement Priorities (ECEP) for 2018 year-end IFRS financial statements, during 2019 European enforcers examined whether a sample of 196 issuers complied with the aspects highlighted in the ECEP. These examinations led to 39 enforcement actions being taken in relation to the 2018 enforcement priorities, in particular regarding IFRS 15 and, to a lesser extent, application of IFRS 9 *Financial Instruments* by credit institutions.

As in previous years, in order to ensure supervisory convergence in the area of accounting enforcement, European enforcers submitted a high number of issues to the European Enforcers Coordination Sessions (EECS) during 2019 – 53 emerging issues and 48 decisions.

### *Enforcement of non-financial statements in 2019*

In 2019, European enforcers examined 937 issuers for the purpose of assessing the disclosure in the non-financial statements prepared in accordance with Articles 19a and 29a of the Accounting Directive, representing 35% of the total estimated number of issuers required to publish a non-financial statement. In case of infringements, enforcers followed up with issuers

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<sup>1</sup> All data in the report includes the United Kingdom, as the country was a member of the EU for all of 2019 which is the focus of the report.



either by taking actions within the meaning of ESMA's Guidelines on Enforcement of Financial Information (95) or by undertaking other measures (2).

Enforcers furthermore assessed the extent to which European issuers had taken account of ESMA's considerations on non-financial disclosure in the 2018 ECEP Statement (notably relating to disclosure on environmental and climate change-related matters and non-financial key performance indicators). To this end, the non-financial statements of 145 issuers were examined, leading to 29 enforcement actions towards issuers who did not comply with the requirements highlighted in the ECEP Statement.

#### *Enforcement of alternative performance measures in 2019*

As regards alternative performance measures (APMs), European enforcers examined 712 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 109 issuers, constituting an action rate of 15%.

#### *2019 Statement on the European Common Enforcement Priorities*

As usual, ESMA and European enforcers identified a set of European Common Enforcement Priorities for European issuers' 2019 year-end IFRS financial statements. European enforcers will include the ECEP in their supervisory practices when they conduct examinations of financial statements during 2020. The 2019 ECEP focus on (i) specific issues related to the application of IFRS 16 *Leases*, (ii) follow-up to specific issues related to the application of IFRS 9 for credit institutions and IFRS 15 for corporate issuers and (iii) specific issues related to the application of IAS 12 *Income Taxes*, including the application of IFRIC 23 *Uncertainty over Income Tax Treatments*.

The 2019 ECEP Statement also contains a number of considerations related to the disclosure in non-financial statements. These address both general aspects of non-financial disclosure, such as the double materiality perspective, and specific topics, namely environmental and climate-change related matters, disclosure of relevant key performance indicators (KPIs), use of disclosure frameworks and supply chains.

Lastly, the ECEP Statement sets out considerations on the impact that the implementation of IFRS 16 may have on APMs published by issuers, on the implementation of the European Single Electronic Format (ESEF) and on the importance of disclosure analysing the potential impact of the United Kingdom's departure from the European Union.

#### *Other activities related to supervisory convergence*

In addition to the recurring activities summarised above, ESMA undertook a number of other activities during 2019 to promote supervisory convergence in the area of corporate reporting. These included a study and subsequent report on European issuers' use of APMs and their compliance with ESMA's APM Guidelines, amending ESMA's Guidelines on Enforcement of Financial Information (published 4 February 2020) in follow-up to the 2017 peer review, issuing a Public Statement on IAS 12 *Income Taxes* and preparing taxonomy files related to the ESEF.

## Single rulebook

Over the course of 2019, ESMA continued to actively participate in the accounting standard-setting process by providing the views of European enforcers on all relevant projects of the International Accounting Standards Board (IASB) and by contributing to the discussions in the Board and Technical Expert Group (TEG) of the European Financial Reporting Advisory Group (EFRAG). As part of these activities, ESMA provided comment letters to contribute to the IFRS Foundation's consultation on proposed amendments of its Due Process Handbook. Furthermore, ESMA responded to EFRAG's consultation on *Equity Instruments – Research On Measurement* which was undertaken with the aim of providing technical advice to the European Commission on alternative accounting treatments to fair value through profit or loss for equity instruments. In this regard, ESMA highlighted, among other things, the importance of transparent and timely reporting of information on the performance and risks underlying financial instruments held by issuers to promote investor protection and the efficient allocation of capital and remarked that IFRS 9 would appear to ensure the necessary information.

ESMA also undertook work in the area of electronic reporting by delivering a technical update to its previous regulatory technical standards on the ESEF.

In addition, ESMA supported the establishment of a single rulebook in relation to issuers' disclosure of non-financial information. As such, ESMA contributed to the development of the European Commission's initiatives to update its Guidelines on non-financial reporting. Moreover, ESMA delivered advice to the Commission on undue short-term pressure on corporations in which it addressed, among other topics, ESG disclosure and provided a number of recommendations to further improve the requirements of the Accounting Directive.

Lastly, ESMA undertook work related to the Audit Regulation, notably through its membership of the Committee of European Audit Oversight Bodies (CEAOB).

## Work programme for 2020

In 2020, ESMA will continue working with European enforcers to ensure supervisory convergence in the area of corporate reporting. This will entail, among other activities, identifying ECEP for 2020 year-end IFRS financial statements, organising discussions among European enforcers on the enforcement of financial and non-financial statements, monitoring the reactions of the market to the report on use of APMs and compliance with ESMA's APM Guidelines, leading discussions among enforcers regarding implementation of the ESEF Regulation and reviewing accounting practices related to IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interest in Other Entities* to provide input to the IASB's post-implementation review of these standards.

Furthermore, ESMA will maintain its contribution to the development of accounting standards of a high quality through its participation in the EFRAG Board and TEG and the submission of comment letters to relevant consultations of the IASB and EFRAG. ESMA will also continue to contribute to the work of the IFRS Advisory Council and the IFRS Taxonomy Consultative Group (ITCG) as well as to the work of the CEOB in relation to audit.

## 2 Introduction

1. This report provides an overview of the activities related to the supervision and enforcement of annual financial reports which was carried out during 2019 by national enforcers in the European Economic Area (EEA – hereafter referred to as European enforcers)<sup>2</sup> and by ESMA.
2. The report furthermore describes ESMA's work in the area of creating a single rulebook in the area of corporate reporting, such as its contribution to the European endorsement of International Financial Reporting Standards (IFRS) and its interaction with the International Accounting Standards Board (IASB), as well as other relevant activities on corporate reporting.
3. ESMA observes that the 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), with a specific focus on issuers preparing their financial statements using IFRS. As such, the report does not cover all enforcement and regulatory activities undertaken by European enforcers.
4. The report is addressed to all stakeholders, including European issuers, investors, auditors, regulators and the general public.

## 3 Supervisory convergence activities

5. Promoting harmonised enforcement of IFRS remains a key area of activity for European enforcers. This chapter describes the main activities carried out by enforcers and by ESMA in this regard during 2019 and furthermore presents the activities which ESMA has planned for the year of 2020. Additionally, Annex 1 sets out a description of the main features of the European system for enforcement of financial reporting with specific references to ESMA's Guidelines on Enforcement of Financial Information.<sup>3</sup>

### 3.1 Assessment of compliance with 2018 ECEP Statement

6. Establishing European Common Enforcement Priorities (ECEP) is one of the important ways of creating supervisory convergence across the EEA. ESMA has developed ECEP on an annual basis since 2012 and has found that communicating certain priorities to stakeholders 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 taken into account in the preparation of 2018

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<sup>2</sup> Please refer to Annex 2 for a list of the European enforcers.

<sup>3</sup> [ESMA/2014/1293](#) Guidelines – *ESMA Guidelines on enforcement of financial information*, 28 October 2014

annual financial statements in October 2018 (hereafter referred to as the 2018 ECEP Statement).<sup>4</sup>

7. In the following, the extent to which issuers followed the 2018 ECEP relating to financial statements drawn up in accordance with IFRS is analysed in section 3.1.1, while the results of a follow-up on the topics relating to the non-financial statement to be disclosed under Directive 2013/34/EU (the Accounting Directive)<sup>5</sup> is addressed in section 3.1.2.

### **3.1.1 2018 ECEP relating to IFRS annual financial statements**

8. The 2018 ECEP Statement included a number of priorities related to annual financial statements drawn up in accordance with IFRS, namely specific issues related to the application of IFRS 15 *Revenue from Contracts with Customers*, specific issues related to the application of IFRS 9 *Financial Instruments* and disclosure of the expected impact of implementation of IFRS 16 *Leases*.
9. In order to analyse how the 2018 ECEP were applied, European enforcers examined the annual financial statements of a sample of 196 issuers from 29 EEA countries. Issuers in the sample were not selected via random sampling, and the findings in the sections below should therefore not be extrapolated to the wider population of listed issuers in the EEA.
10. Please note that, for each question, issuers for which a given topic was not applicable were removed from the sample for the purpose of calculating the percentages presented. Therefore, all findings in the following sections refer to the sub-sample of issuers for whom a given topic was relevant.

#### **3.1.1.1 Application of IFRS 15**

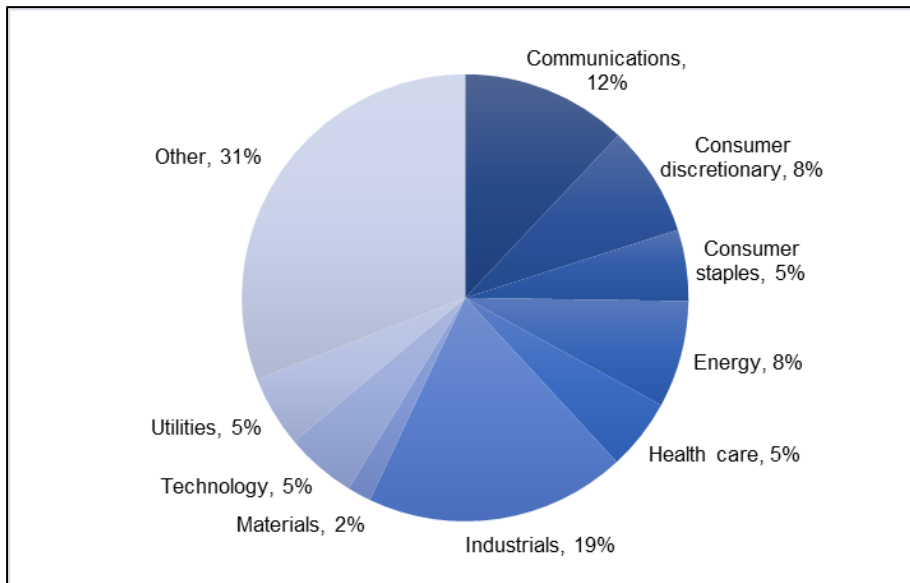
11. In order to assess application of IFRS requirements highlighted in the 2018 ECEP Statement on IFRS 15, during 2019 European enforcers examined the annual financial statements of 117 issuers that adopted IFRS 15 for the first time at 1 January 2018. Only a few issuers (7%) adopted IFRS 16 at the same time.
12. Information about the sector and market capitalisation of the issuers in the sample is presented in the graphs below.

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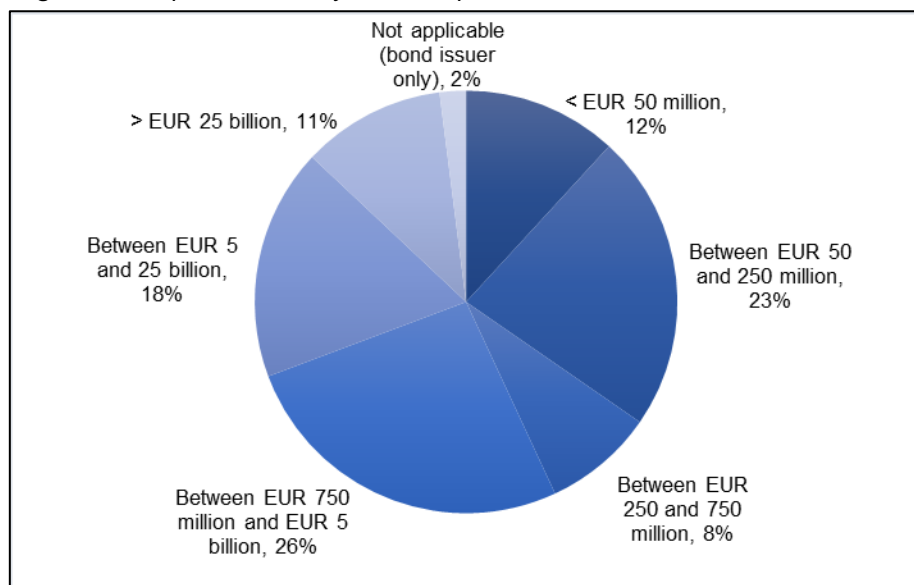
<sup>4</sup> [ESMA32-63-503](#) Public Statement – *European common enforcement priorities for 2018 annual financial reports*, 26 October 2018

<sup>5</sup> 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, OJ L 182, 29.6.2013, p. 19–76

**Figure 1: Sample of issuers by sector of activity**



**Figure 2: Sample of issuers by market capitalisation**



### **Analysis of information provided**

#### *Transition disclosure*

- Looking first at general disclosure related to IFRS 15, 77% of issuers in the sample provided detailed information on the impact of IFRS 15 on their financial statements (nature of change in accounting policies, description of transitional provisions, amount of adjustment for each affected line item of the financial statements etc.), with an additional 22% making disclosure of a partial or boilerplate nature and 1% not providing this information. Issuers in the sample were evenly split between those for whom the effect of

adopting IFRS 15 was material to the revenue recognition principles (either quantitatively or qualitatively) and those for whom it was not.

14. Among those issuers in the sample for whom the effect of adopting IFRS 15 was quantitatively material, 91% provided complete disclosure of the transition method (modified retrospective method or full retrospective method) as well as transition impact on their financial position and performance. Among the issuers in the sample who applied the modified retrospective method, 88% provided the additional disclosure for reporting periods that include the date of initial application, as required by paragraph C8 of IFRS 15, while 12% provided disclosure in this area which was, however, missing either quantitative or qualitative detail.
15. As regards changes to the revenue recognition pattern, 26% of the issuers in the sample have undergone a change from over time to point in time or vice versa as a result of applying IFRS 15. Of those issuers that underwent a change, 85% clearly identified and disclosed the drivers of this change. For example, one issuer explained that, in relation to sale of residential projects, paragraph 35(c) of IFRS 15 was fulfilled, i.e. the entity's performance did not create an asset with alternative use to the entity and the entity had an enforceable right to payment, and so the issuer recognised revenue over time under IFRS 15 as opposed to fully at completion under IAS 18.

*General disclosure on application of IFRS 15*

16. ESMA welcomes the fact that entity-specific accounting policies were provided, and that issuers explained in a clear way how the IFRS 15 principles apply to the entity, for the large majority of issuers in the sample (82%), with an additional 14% providing disclosure of a boilerplate nature. ESMA notes that 69% of issuers in the sample provided detailed disclosure and explanation of how they applied IFRS 15 for material revenue streams (31% provided information of a boilerplate nature or did not provide this information at all). More specifically, between two thirds and 90% of the issuers providing detailed disclosure disclosed the following aspects (in decreasing order of frequency and with reference to those issuers for whom the disclosure was material):
  - determination of the point in time or over time satisfaction of the performance obligation,
  - recognition of revenue from intellectual property,
  - identification of performance obligations,
  - method for measuring the progress in satisfaction of performance obligations over time,
  - principal / agent,
  - contract assets / liabilities, including explanation of the items in those balances,

- recognition of variable consideration,
- existence of a significant financing component,
- allocation of transaction price to multiple performance obligations.

#### *Principal vs. agent assessment*

17. ESMA observes that 44% of issuers in the sample provided sufficient disclosure on significant judgements and assumptions used in the principal / agent assessment, while 56% did not. As ESMA highlighted in the 2018 ECEP Statement, disclosure in this area is important as the IFRS 15 analysis will sometimes lead to a different conclusion than the issuer's previous accounting treatment. ESMA therefore encourages issuers, where relevant, to enhance their disclosure in this domain in future financial statements.

#### *Allocation of transaction price to multiple performance obligations*

18. While only 43% of issuers in the sample were confirmed to have sufficiently used observable inputs when allocating the transaction price to performance obligations, for 53% of the issuers the information in the financial statements was insufficient to conclude whether the use of observable inputs was adequate. Again, ESMA observes the importance of considering all information and of maximising the use of observable inputs as required in paragraph 78 of IFRS 15 and invites issuers to improve their disclosure in this regard going forward.

#### *Presentation of contract assets and contract liabilities*

19. Looking at presentation of contract assets and liabilities upon transition, ESMA notes that 54% of issuers in the sample disclosed both quantitative and qualitative explanations of the significant changes in the contract asset and liability balances during the reporting period. Another quarter of issuers provided incomplete or boilerplate disclosure, and more than a fifth of issuers provided no disclosure. ESMA encourages issuers to provide more complete disclosure in future reporting periods in order to allow users of financial statements to understand the relationship between the revenue recognised and the changes in the balances of the issuer's contract assets and liabilities and thereby to assess the nature, timing and uncertainty of revenue and cash flows arising from an issuer's contracts with customers.
20. Furthermore, 52% of issuers in the sample decided to present contract assets / liabilities separately in the statement of financial position. The issuers that did not present these balances separately usually included them in other line items because of their immateriality. Additionally, two thirds of issuers in the sample classified all contract assets / liabilities as short-term in the statement of financial position, and 59% provided disclosure related to the assessment of contract assets for impairment (however, for an additional one third of issuers in the sample the financial statements contained insufficient information to conclude whether this requirement had been adequately met).

### *Disaggregation of revenue*

21. The 2018 ECEP Statement highlighted the importance of disaggregating revenue to allow users of financial statements to understand the main drivers in the issuer's revenue. In this regard, as a result of the adoption of IFRS 15, 44% of issuers in the sample provided revised disaggregation of revenue to the one previously provided, of which 5% in a way not considered appropriate to the nature of the activities (for example, one issuer added a disaggregation between advertising and non-advertising revenue under IFRS 15 in addition to information disclosed under IFRS 8. While the segment information used other categories (geographical areas, principal activities), the revenue disclosure was considered insufficient to comply with IFRS 15). On the other hand, 56% provided the same disaggregation as under IAS 18.
22. For 85% of the issuers in the sample, the disaggregation included in the financial statements was consistent with the information provided by the issuer for other purposes, such as in the management report, segment report or press release, whereas for 15% disclosure was less disaggregated than in earnings releases or investor presentations and / or inconsistent with those sources. ESMA notes that more than three quarters of issuers in the sample provided disclosure of the revenue disaggregated into categories depicting how the nature, amount, timing and uncertainty of revenue and cash flows were affected by economic factors, while less than a quarter did not. Lastly, 71% applied the categories in paragraph B89 of IFRS 15 when disaggregating their revenue with another 19% providing at least some disaggregation based on those categories. On the basis of these findings, ESMA encourages issuers to make improvements regarding disaggregation of revenue in their future financial statements.

### *Disclosure regarding remaining performance obligations*

23. ESMA notes that 62% of issuers in the sample provided sufficient disclosure related to remaining performance obligations and specifically to unsatisfied contracts with customers, while almost a fifth provided disclosure of a boilerplate nature and another fifth of issuers provided no disclosure in this regard. ESMA encourages issuers, where appropriate and significant, to provide more complete disclosure in this area in future financial statements in order to be aligned with paragraph 120 of IFRS 15, as demonstrated in IFRS 15 Illustrative Example 42.

### *Significant judgements*

24. Looking finally at judgements made by the issuers in the sample, ESMA observes that only 47% sufficiently explained the rationale for the significant judgements they had made in relation to application of IFRS 15, as required by paragraph 123 of IFRS 15 (such as judgements on identification, timing of satisfaction of performance obligations, identification of whether the issuer acts as a principal or agent), with an additional one third of issuers making disclosure of a partial or boilerplate nature and a fifth of issuers providing no such disclosure. As the application of IFRS 15 relies on the issuer's analysis of the individual contractual relationships with its customers, ESMA encourages issuers to increase transparency in relation to the significant judgements made in the coming reporting periods.



### ***Enforcement actions***

25. European enforcers took 23 enforcement actions against the issuers in the sample, composed of 22 corrections in the future financial statements with restatement of comparatives and 1 corrective note. Enforcement actions notably related to insufficient disaggregation of revenue and lack of consistency with the level of disaggregation in other material (in particular investor presentations) and insufficient disclosure of significant judgements made, insufficient disclosure related to remaining performance obligations, insufficient disclosure of significant changes in the contract asset and the contract liability balances.
26. An additional 24 examinations in relation to the issuers in the sample are still ongoing.

### **3.1.1.2 Application of IFRS 9**

#### ***- Non-financial companies***

27. European enforcers assessed the way non-financial companies applied the 2018 ECEP for IFRS 9 based on a sample of 20 issuers from a variety of sectors and market capitalisations. The application of IFRS 9 had a material impact on the financial statements of each of these issuers, most often because of the change in the classification of financial assets, introduction of the expected credit loss (ECL) model that changed their approach to measuring impairment, including of trade receivables, or because of the change in their approach to hedge accounting.

### ***Analysis of information provided***

#### *Transition disclosure*

28. ESMA welcomes the fact that almost all issuers in the sample disclosed the accounting policy choices they had made in relation to IFRS 9, including changes made to their accounting policies due to IFRS 9 implementation. Furthermore, in accordance with paragraph 21 of IFRS 7, 90% of the issuers in the sample provided sufficient disclosure on their transition approach, for example regarding the use of practical expedients on transition (no restatement of comparative information for prior periods, simplified approach for receivables).
29. Similarly, 90% of the sample included both quantitative and qualitative information about reclassifications of financial assets and financial liabilities, the impact of the ECL model and of the new approach to hedge accounting upon the initial application of IFRS 9. Moreover, 70% of issuers in the sample disclosed a reconciliation between the closing impairment allowances under IAS 39 and the opening impairment allowances under IFRS 9 disaggregated by measurement category, whereas 30% did not.

*Qualitative information*

30. As regards the qualitative information provided, 78% of the sample provided disclosure with a level of detail commensurate to the importance of the financial instruments in their business operations, which was both entity-specific and disaggregated.

*Hedge accounting*

31. As regards the new hedge accounting model in IFRS 9, more than two thirds of issuers for which hedge accounting was material adopted the IFRS 9 hedge accounting model, whereas 23% retained the model included in IAS 39. Moreover, all but one of the issuers in the sample that applied hedge accounting provided hedge accounting disclosure which was transparent and proportionate to the impact and significance of the exposure to the risks from the hedged items. Lastly, 83% of the sample that applied hedge accounting sufficiently disaggregated their disclosure by risk category on the basis of the risks hedged for accounting purposes.

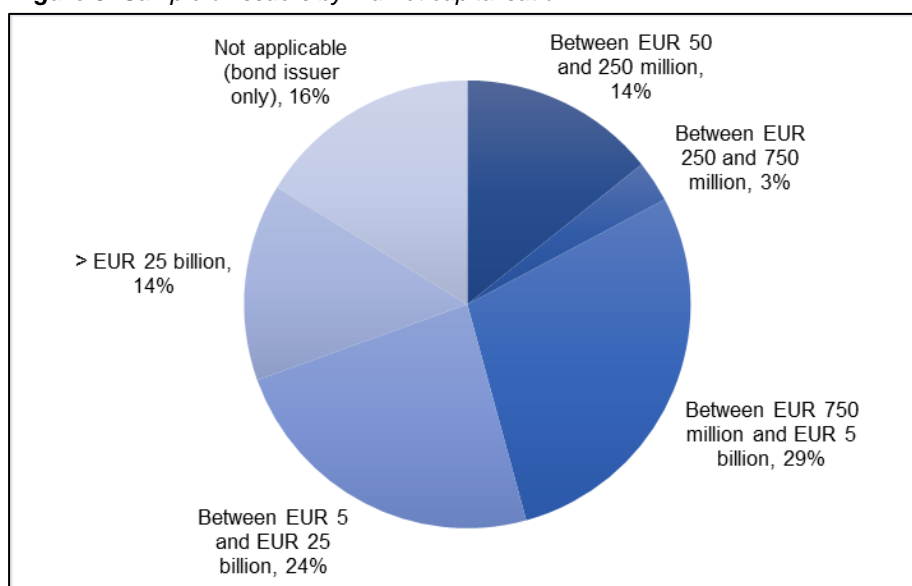
**Enforcement actions**

32. European enforcers did not take any enforcement actions on IFRS 9 information in the financial statements – or the lack thereof – of the non-financial companies in the sample during 2019. Ten enforcement examinations are currently still ongoing in this area.

**- Credit institutions**

33. During 2019, European enforcers assessed the way credit institutions (hereafter, banks) applied the 2018 ECEP for IFRS 9 based on a sample of 38 issuers. Information about the market capitalisation of these banks is presented in the graph below.

**Figure 3: Sample of issuers by market capitalisation**



34. In addition to the banks, the analysis in this section also covers European enforcers' examinations of the financial statements of six financial conglomerates, for which a sector other than the insurance sector was material as well (hereafter, these entities are referred to as the non-insurance part of financial conglomerates).<sup>6</sup>

### ***Analysis of information provided***

#### *Transition disclosure*

35. As regards general transition disclosure, almost all the banks in the sample provided entity-specific information on the impact of IFRS 9 on their financial statements. All the banks who provided such transition disclosure presented disaggregated information on their choices related to accounting policy, including the choices they made in relation to the transition to IFRS 9 (e.g. using the modified retrospective approach), and 54% provided sufficient disaggregated information on the use of practical expedients (e.g. using the simplified approach to measurement of the ECL for other trade receivables and other receivables and recognising the loss allowance at an amount equal to lifetime ECL). These conclusions largely apply to the non-insurance parts of financial conglomerates as well.
36. Moreover, almost all issuers in the sample disclosed the quantitative amount of the impact of adoption on their financial position, performance and accounting equity. Disclosure was less complete in relation to the nature and drivers of the impact on financial position, performance and accounting equity, as around two thirds of issuers provided disclosure which was fully disaggregated and comprehensive, whereas one third provided either aggregated information or disaggregated information without sufficient explanation.
37. Almost all issuers in the sample disclosed information permitting the reconciliation of the ending impairment allowances and provisions in accordance with IAS 39 and IAS 37 to the opening loss allowances determined in accordance with IFRS 9 at the date of the initial application. Only 16% of the issuers in the sample reported a material impact on Stage 3 assets, and those that did all explained the related changes in their accounting policies.
38. Furthermore, ESMA points out that only 16% of the banks in the sample and none of the non-insurance parts of financial conglomerates sufficiently disclosed the key assumptions made on transition to assess credit risk at origination prior to 2018, while 11% and 17%, respectively, provided generic information. The remainder of the issuers in the sample provided no information.
39. Lastly, in relation to reclassifications of financial assets upon initial application of IFRS 9, almost all issuers in the sample provided information in both a qualitative and quantitative

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<sup>6</sup> Commission Regulation (EU) 2017/1988 permitted financial conglomerates not to apply IFRS 9 to entities operating in the insurance sector. For the six financial conglomerates included in this analysis, the assessment of IFRS 9 disclosure thus relates not to the insurance sector but only to the rest of the group.

form, permitting reconciliation between the measurement categories presented in accordance with IAS 39 and IFRS 9 at class level.

*General disclosure on expected credit loss*

40. Looking at disclosure regarding the ECL model, ESMA is encouraged by the fact that almost 90% of banks in the sample disaggregated their disclosure in line with internal credit risk management strategies (e.g. across various lending categories in the statement of financial position, per country) and, as appropriate, based on different types of products or geographical markets, as required by paragraphs 35D and B8H-I of IFRS 7. Disclosure by the non-insurance parts of the financial conglomerates in the sample was less detailed, as only one third provided disaggregated information, while half provided partial disaggregation and a fifth none at all. Sufficient disclosure of the material assumptions made in application of the ECL method – as required by IFRS 7.35G – was provided by three quarters of banks but only one third of the non-insurance parts of financial conglomerates. A similar picture emerged as regards information on how instruments were grouped (where ECL was measured on a collective basis), though some issuers provided this information elsewhere in the annual financial report. Disclosure was more complete in relation to the judgements and sources of estimation uncertainty related to the ECL model, as around three quarters of the issuers in the sample sufficiently disclosed these factors, with the remaining issuers providing disclosure of a partial or boilerplate nature or no disclosure at all.
41. ESMA observes that 45% of the banks and only 17% of the non-insurance parts of financial conglomerates in the sample disclosed sensitivity analysis of carrying amounts to methods and assumptions related to the ECL model, whereas the remaining issuers provided disclosure of a partial or boilerplate nature or no disclosure at all. As this is an important area, ESMA highlights that issuers should make an effort to improve in this regard in their upcoming financial statements.
42. ESMA notes that disclosure was more complete in relation to the definition of default applied, with 80% of issuers providing this definition and 18% providing partial or boilerplate disclosure. For 70% of banks and for all non-insurance parts of financial conglomerates in the sample, information sufficiently covered the extent to which the definition aligned with the definition of default used for regulatory purposes. As regards Stage 3 financial assets, 32% of the banks and 17% of the non-insurance parts of financial conglomerates in the sample disclosed that they established a probation / cure period for the time it would take for such assets to cease being classified as Stage 3. Sometimes the existence of the cure period was disclosed only in the management report and not in the financial statements. ESMA observes that there is room for improvement in this area, and that issuers should either link their disclosure more closely to the management report or provide additional entity-specific detail.

*Measurement of expected credit loss*

43. Looking at ECL measurement, 82% of issuers in the sample provided sufficiently specific disclosure on how they determined ECL, as required by paragraphs 35F-G of IFRS 7.

Furthermore, 80% of the issuers in the sample disclosed the key factors and assumptions used in their ECL calculation. Of this disclosure, around half was disaggregated by type of instrument, portfolio or geographical market commensurate to the business activities of the issuer.

44. Furthermore regarding ECL calculation, around two thirds of the issuers in the sample disclosed the definition of probability of default (PD), exposition at default (EAD) and loss given default (LGD), i.e. the components of the formula for computing ECL, along with how they were assessed.

*Significant increase in credit risk*

45. In addition to disclosure on ECL, the 2018 ECEP Statement contained a number of recommendations relating to significant increase in credit risk (SICR). In this regard, 84% of issuers in the sample sufficiently disclosed how they had established the criteria for identifying SICR for each material portfolio. Between 51% and 66% of the banks in the sample disclosed the following SICR indicators (in order of decreasing frequency) while some included other relevant factors, such as forbearance:

- relative change in the lifetime PD on individual level,
- deterioration of credit rating class,
- relative change in the lifetime PD on collective level.

46. As regards judgements made, two thirds of the issuers in the sample provided specific disclosure on their material judgements related to the SICR assessment. Furthermore, only 32% of the banks and 17% of the non-insurance parts of financial conglomerates in the sample provided complete disclosure on their material judgements related to the rebuttal of SICR for financial assets more than 30 days past due. While a number of issuers in the sample did not apply the rebuttable presumption, overall more than half of the institutions in the sample did not provide any disclosure in this regard. Lastly, 43% of the issuers in the sample disclosed their material judgements related to the determination and use of the low credit risk assumption. Overall, ESMA considers that the sample showed room for improvement in relation to disclosure on material judgements in relation to SICR.

47. Looking at quantitative disclosure related to SICR, ESMA welcomes the fact that almost all issuers in the sample disclosed whether they used PD and / or internal rating scores to assess SICR. Disclosure was provided by fewer issuers in the sample as regards the range above which an increase in lifetime PD was considered to be significant. On the other hand, most issuers in the sample provided disclosure of the qualitative factors which were considered in the assessment of SICR, for material portfolios (84%, with an additional 11% providing partial or boilerplate disclosure). Of the 25 issuers in the sample that assessed SICR at portfolio level, around two thirds of banks and all non-insurance parts of financial conglomerates disclosed the approach they applied to collective assessment.

48. ESMA observes that only one third of the issuers in the sample disclosed the factors which they took into account when assessing the reversal of SICR, with an additional quarter providing disclosure of a partial or boilerplate nature

*Forward-looking information*

49. Only two thirds of the banks and one third of the non-insurance parts of financial conglomerates sufficiently disclosed their approach to using forward-looking information in their ECL calculation (including use of macroeconomic information). ESMA highlights that this disclosure should be made more complete in future financial statements in order for issuers to comply with IFRS 7, paragraph 35G(b).
50. The 2018 ECEP Statement reminded banks that, in order to comply with IFRS 9, it might be necessary to use multiple scenarios to determine ECL as required by IFRS 9, paragraph 5.5.17(a). Of the issuers in the sample, 79% of banks and two thirds of non-insurance parts of financial conglomerates used multiple scenarios, the majority by using three scenarios while a smaller number of issuers used four or five scenarios or the Monte Carlo approach. The main assumptions underlying these scenarios were sufficiently disclosed by 44% of the issuers in the sample, with the following elements being provided by between 35% and 76% of those issuers (in order of decreasing frequency):
- the weight of each scenario,
  - the forecast horizon which was considered,
  - quantitative information of indicators per scenario,
  - sensitivity analysis for the key assumptions used for main portfolios.

*Reconciliations*

51. Turning from forward-looking information to reconciliations, almost all issuers in the sample provided a reconciliation of the loss allowance from the opening to the closing balance. Furthermore, around three quarters of the banks and a third of the non-insurance parts of financial conglomerates in the sample disclosed, for each class of assets and for each stage, significant changes in the gross carrying amount of financial instruments that contributed to changes in the loss allowance during the period. In addition, some partial disclosure was made in this regard, usually providing information only by stage and not by class of assets.
52. As regards the level of detail of the reconciliations provided in the financial statements of issuers in the sample, around half provided sufficient detail on the type of changes presented, both by way of qualitative and quantitative information, while an additional one third of banks provided only quantitative information. More specifically, between 69% and 88% of issuers in the sample included the following reconciliations (in order of decreasing frequency):
- amount of write-offs,

- transfer from 12-month ECL to lifetime ECL (i.e. Stage 1 to Stage 2) and vice versa,
  - transfer from Stage 2 to Stage 3 and vice versa,
  - amount of other derecognition events,
  - impact of new lending,
  - purchase of financial assets,
  - changes in model parameters.
53. Less than half of the issuers in the sample presented material non-performing loans (NPLs) in their financial statements, and among those who did present such information, only for 22% was the amount of the NPLs materially different to Stage 3 assets.

#### *Classification of financial assets*

54. As regards the accounting policies applied in relation to the solely payments of principal and interest (SPPI) criteria, approximately two thirds of issuers in the sample provided sufficient disclosure in this regard, as required by paragraph 21 of IFRS 7. Disclosure was even less complete regarding the judgements made on application of the SPPI criteria, as this was provided by less than half of the issuers in the sample, and more than a quarter provided disclosure of a partial or boilerplate nature. ESMA urges issuers to provide more comprehensive disclosure in this area in future financial statements.
55. Among those issuers in the sample that reclassified financial assets and / or liabilities upon initial application of IFRS 9, 79% provided specific information on fair value and fair value gain / loss as required by paragraph 42M of IFRS 7. Lastly, 84% of the banks and 67% of the non-insurance parts of financial conglomerates in the sample disclosed total interest revenue and total interest expense for financial assets measured at amortised cost or measured at fair value through other comprehensive income (FVOCI) in a separate line, in accordance with IAS 1, paragraph 82(b), with the remaining issuers in the sample providing no such disclosure.

#### ***Enforcement actions***

56. European enforcers took ten enforcement actions against the banks and financial conglomerates covered in this section (seven against banks and three against financial conglomerates). These actions were composed of nine corrections in future financial statements and one corrective note and related, among other, to lack of disclosure in the key assumptions regarding SICR and ECL and to lack of disclosure of ECL sensitivity. In addition, ten enforcement examinations are currently ongoing (nine relating to banks and one relating to a financial conglomerate).

**- Insurance companies and financial conglomerates**

57. Lastly, European enforcers examined 11 issuers during 2019 to assess the application of the requirements highlighted in 2018 ECEP in relation to IFRS 9 for insurance parts of financial conglomerates and for insurance undertakings.

***Analysis of information provided***

58. One financial conglomerate in the sample fully applied IFRS 9. Two financial conglomerates in the sample applied IFRS 9 together with the overlay approach for insurance-related assets. The disclosure provided by those two issuers, in relation to their application of the overlay approach, was quite complete.
59. Three financial conglomerates in the sample applied the EU top-up and did not apply IFRS 9 for any of their entities in the insurance sector in their 2018 IFRS financial statements. All three issuers provided the additional disclosure required by the Commission Regulation (EU) 2017/1988<sup>7</sup> introducing the possibility for financial conglomerates to delay application of IFRS 9 for insurance entities.
60. Assessment of application of IFRS 9 by these six issuers (for the entire financial statements or in relation to non-insurance entities that apply IFRS 9) is included in the section on application of IFRS 9 for credit institutions above.
61. Furthermore, the sample included five insurance undertakings that did not apply IFRS 9 in their 2018 IFRS financial statements based on the requirements of IFRS 4 *Insurance Contracts*. Consequently, European enforcers assessed application of the additional disclosure requirements of IFRS 4 related to the temporary exemption from application of IFRS 9 for eight issuers (three financial conglomerates applying the EU top-up and five insurance undertakings). European enforcers concluded that all of these financial statements provided sufficient information on how these issuers qualified for the use of the temporary exemption from application of IFRS 9 as well as judgements and assumptions made in this regard. In addition, almost all of these issuers provided additional fair value disclosure required by paragraph 39E of IFRS 4 and information on credit risk exposures required by paragraph 39G of IFRS 4. Finally, only one issuer in the sample applied the temporary exemption from specific requirements in IAS 28 *Investments in Associates* provided by paragraph 20O of IFRS 4 and properly disclosed this fact in accordance with paragraph 39I of IFRS 4.

***Enforcement actions***

62. No additional enforcement actions were taken by European enforcers against issuers in the sample of insurance undertakings and financial conglomerates (one enforcement

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<sup>7</sup> Commission Regulation (EU) 2017/1988 of 3 November 2017 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 4, OJ L 291, 9.11.2017, p. 72–83

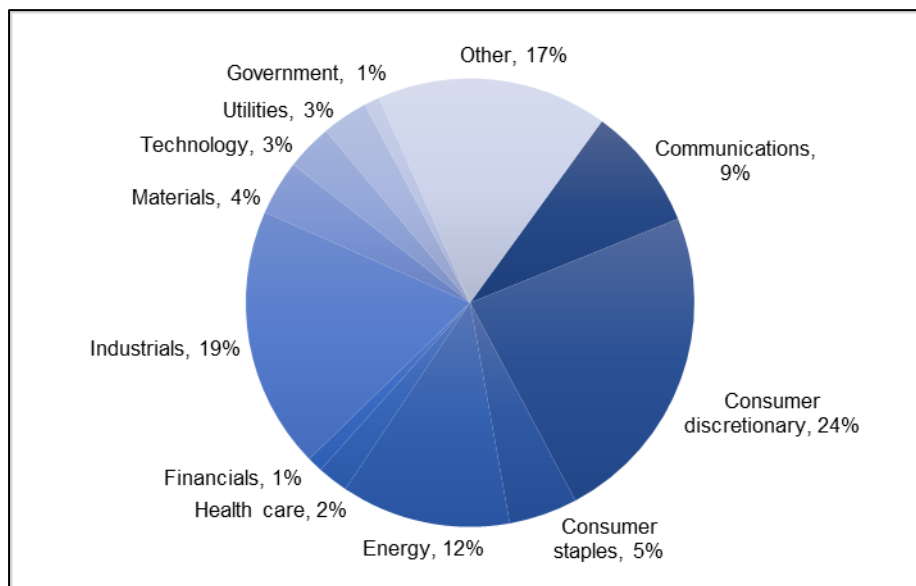


against a financial conglomerate is counted in the section on IFRS 9 for credit institutions as it relates to application of IFRS 9).

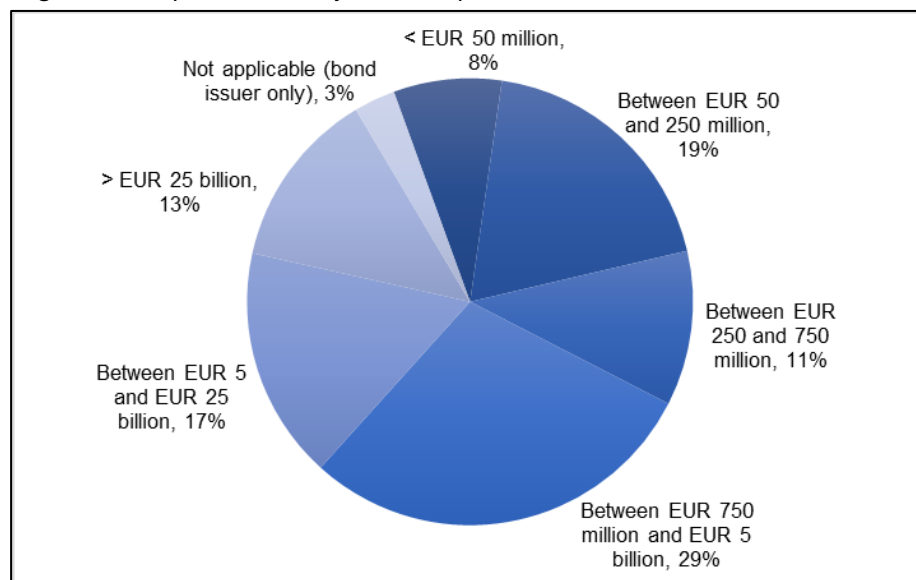
### 3.1.1.3 Disclosure related to the expected impact of implementation of IFRS 16

63. European enforcers examined a sample of 88 issuers during 2019 in order to assess how European issuers have prepared for the application of IFRS 16, and more specifically how they have taken the 2018 ECEP into account. None of the issuers in the sample had early-adopted IFRS 16 at 1 January 2018 or before, and the large majority of them (77) were primarily lessees. Information about the sector and market capitalisation of the issuers in the sample is provided in the figures below.

**Figure 4:** Sample of issuers by sector of activity



**Figure 5:** Sample of issuers by market capitalisation



## ***Analysis of information provided***

### *Transition disclosure*

64. Among the issuers in the sample, 83% expected IFRS 16 to have a material impact on their financial position, performance or equity, while 2% were not sure and 15% believed the impact would not be material. Regardless of this assessment of expected materiality, 75% of issuers in the sample provided entity-specific qualitative disclosure about the expected impact of adopting IFRS 16, as required by paragraph 30 of IAS 8, with an additional 20% providing disclosure of a boilerplate nature.
65. Furthermore, 63% of issuers in the sample provided an entity-specific description of the expected qualitative impact of applying IFRS 16 on their financial statements and their judgements made in adopting the standard (with an additional 28% making disclosure of a boilerplate nature). In making this disclosure, between 16% and 41% of issuers provided the main assumptions used in the determination of right of use (RoU) assets and lease liabilities in the following areas (by decreasing order of frequency):
  - assessment of whether a contract contained a lease,
  - discount rate,
  - determination of the lease term,
  - separation of the service and the lease component.
66. ESMA welcomes that almost all of the issuers in the sample who expected IFRS 16 to have a material impact on their financial position, performance or equity provided appropriate disclosure on the transition method applied. This disclosure showed that 84% of issuers in the sample selected to apply the modified retrospective method while 13% opted for the full retrospective method. As regards the use of practical expedients, two thirds of issuers in the sample provided sufficient information (e.g. explaining that RoU assets and lease liabilities will be reported separately in the statement of financial position) while one third provided insufficient or, most often, no disclosure.
67. Looking at the quantitative disclosure made available by issuers in the sample, slightly less than two thirds provided the expected impact of IFRS 16 on both their financial performance and statement of financial position, and one third provided information exclusively about the expected impact on their statement of financial position. Among those issuers who did not provide any information in this regard (five in total), three provided qualitative information enabling users of the financial statements to understand the magnitude of the expected impact while two did not.
68. Lastly, among the issuers expecting IFRS 16 to have a material impact on their financial position, performance or equity, ESMA notes that only slightly more than one third explained the link between minimum lease payments for operating leases disclosed based on the requirements of IAS 17 and IFRS 16 impacts, whereas almost two thirds of issuers

provided no explanation. ESMA considers that more complete disclosure in this area would have been helpful for users of financial statements.

### ***Enforcement actions***

69. European enforcers took six enforcement actions (five corrections in future financial statements and one corrective note) against the users in the sample. In addition, eight enforcement examinations are currently still ongoing.

### **3.1.1.4 Conclusion on 2018 ECEP relating to IFRS annual financial statements**

#### ***Analysis of information provided***

70. Due to the anticipated significant changes of the new requirements contained in IFRS 9, IFRS 15 and IFRS 16, ESMA's 2018 ECEP Statement for annual financial reports focused on issues related to these standards which European issuers had either just started applying or had been preparing to apply in 2019.
71. Issuers were expected to provide certain transition disclosure in their annual financial statements for 2018, either regarding the actual impacts (IFRS 9 and 15) or the expected impacts (IFRS 16) of the new standards. ESMA observes that disclosure of the actual impacts of IFRS 9 and 15 was overall quite complete, though banks and the non-insurance parts of financial conglomerates could have provided more specific information in certain areas related to IFRS 9. As for disclosure of the expected impact of IFRS 16, ESMA identified certain gaps, notably in relation to the assumptions and judgements used in estimating the discount rate for determining the present value of the remaining lease payments and in recognising the right of use assets upon transition and in relation to the link between minimum lease payments for operating leases disclosed based on the requirements of IAS 17 and IFRS 16 impacts.
72. Regarding application of IFRS 15, ESMA welcomes that a large proportion of the issuers in the sample explained their entity-specific accounting policies and did so in a clear way, thus providing valuable information to users of financial statements. ESMA did, however, observe a number of areas in which improvements are needed, including:
- Disaggregation of revenue could have been more complete,
  - Disclosure of quantitative and qualitative explanation of the significant changes in the contract asset and liability balances during the reporting period was inadequate,
  - For a number of issuers, disclosure was not sufficient to assess remaining performance obligations, specifically to unsatisfied contracts with customers,
  - Many issuers provided insufficient or no explanation of the significant judgements made in relation to application IFRS 15,

- Disclosure of the use of observable inputs in the allocation of the transaction price to performance obligations was unclear.
73. ESMA urges issuers to make improvements in these areas in their future financial statements to be compliant with the new requirements and as such provide helpful information to users of financial statements.
74. As expected, the most noteworthy findings concerning the application of IFRS 9 related to banks and the non-insurance parts of financial conglomerates. ESMA observed a good level of disaggregation in disclosure related to the ECL model in line with internal credit risk management strategies and based on different product types or geographical markets. Moreover, ESMA welcomes that almost all issuers in the sample provided detailed quantitative disclosure on whether they used PD and / or internal rating scores to assess SICR.
75. However, ESMA highlights to banks and to the non-insurance parts of financial conglomerates that, based on the sample of annual financial statements analysed during 2019, there is still much room for improvement in a number of areas related to IFRS 9:
- As regards SICR, disclosure was missing for a number of issuers regarding the specific material judgements made (e.g. related to the rebuttal of SICR for financial assets that are more than 30 days past due). Furthermore, there was a low level of disclosure of the factors which issuers took into account when assessing the reversal of SICR and in relation to the range above which an increase in lifetime PD was considered significant.
  - Concerning forward-looking information, while all issuers in the sample used such information, the proportion of banks and especially of non-insurance parts of financial conglomerates who disclosed their approach for doing so was relatively low.
  - In relation to the ECL model, disclosure of sensitivity analysis of carrying amounts to methods and assumptions related to the ECL model was lacking. Additionally, disclosure of the cure period for Stage 3 financial assets to cease being classified as Stage 3 was lacking and was sometimes made only elsewhere in the annual financial report.
  - On the SPPI criteria, disclosure was lacking for a number of issuers both in relation to the entity-specific accounting policies applied and the judgements made on application of the criteria.
76. ESMA urges banks and the non-insurance parts of financial conglomerates to make the necessary improvements in these areas in their future disclosure to ensure that the information provided on application of IFRS 9 is helpful to users of financial statements.

### **Enforcement actions**

77. Overall, European enforcers took 39 enforcement actions against the 196 issuers in the sample. These actions mainly consisted of requiring the issuer to correct the relevant matter in the future financial statements. In addition to those actions undertaken within 2019, 49 examinations of 2018 IFRS annual financial statements were still open at the end of 2019. The sample action rate was 20%.
78. The table below reflects the distribution and types of actions across the standards examined for the purpose of the 2018 ECEP Statement.

**Table 1: Enforcement actions on the sample of issuers**

	IFRS 15	IFRS 9			IAS 8.30 / IFRS 16	Total
		Non-financial institutions	Credit institutions	Insurance comp. and fin. congl.		
Reissuance of financial statements	0	0	0	0	0	<b>0</b>
Public corrective note	1	0	1	0	1	<b>3</b>
Correction in future financial statements	22	0	9	0	5	<b>36</b>
Total number of enforcement actions	<b>23</b>	<b>0</b>	<b>10</b>	<b>0</b>	<b>6</b>	<b>39</b>
Sample size	117	20	44	11	88	<b>196<sup>8</sup></b>
Sample action rate	20%	0%	23%	0%	7%	<b>20%</b>

<sup>8</sup> 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 – 196 – is lower than the total of the sample sizes.

### 3.1.2 Considerations on non-financial statements

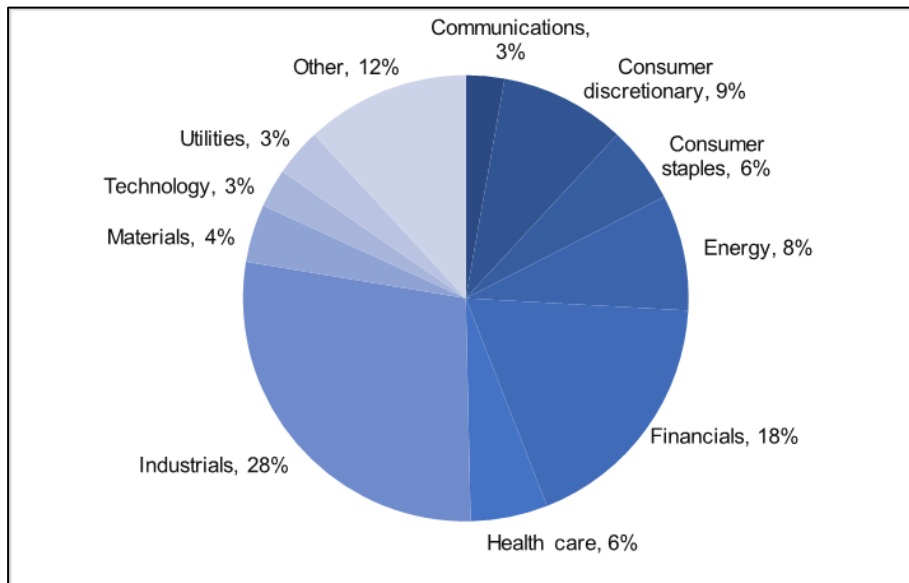
79. The 2018 ECEP Statement included a number of considerations relating to other parts of the annual financial report.
80. These considerations firstly related to specific aspects of the ESMA Guidelines on Alternative Performance Measures (APMs), namely the definition and explanation of APMs and the principle of prominence. The way issuers took these considerations into account is not further analysed in this report, as ESMA conducted and published a separate, broader study in relation to European issuers' application of the Guidelines in 2019.<sup>9</sup>
81. Secondly, the 2018 ECEP Statement contained considerations related to the disclosure of non-financial information under Articles 19a and 29a of the Accounting Directive, specifically concerning (i) environmental and climate change-related matters, (ii) explanations of why certain policies were not developed / pursued and (iii) key performance indicators (KPIs) relating to non-financial policies. For the purpose of collecting data on the way issuers addressed these areas, over the course of 2019 European enforcers examined non-financial statements from a sample of 145 issuers from 26 EEA countries.<sup>10</sup> As the national transpositions of Articles 19a and 29a became applicable in most EEA countries for reporting periods starting on or after 1 January 2017, for most European enforcers the examinations undertaken during 2019 constituted the second cycle of reviews of non-financial statements.
82. Of the 145 non-financial statements examined, 67% were included directly in the management report, of which 9% via cross-reference, while 14% presented the non-financial statement separately but still within the annual financial report. 19% of the examined issuers presented the non-financial statement separately outside the annual financial report. The vast majority of non-financial statements examined (141) were consolidated statements.
83. 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 applicable were removed from the sample for the purpose of calculating the percentages presented. Therefore, all findings refer to the sub-sample of issuers for whom a given topic was relevant.
84. Information about the sector and capitalisation of all 145 issuers in the sample is presented in the graphs below.

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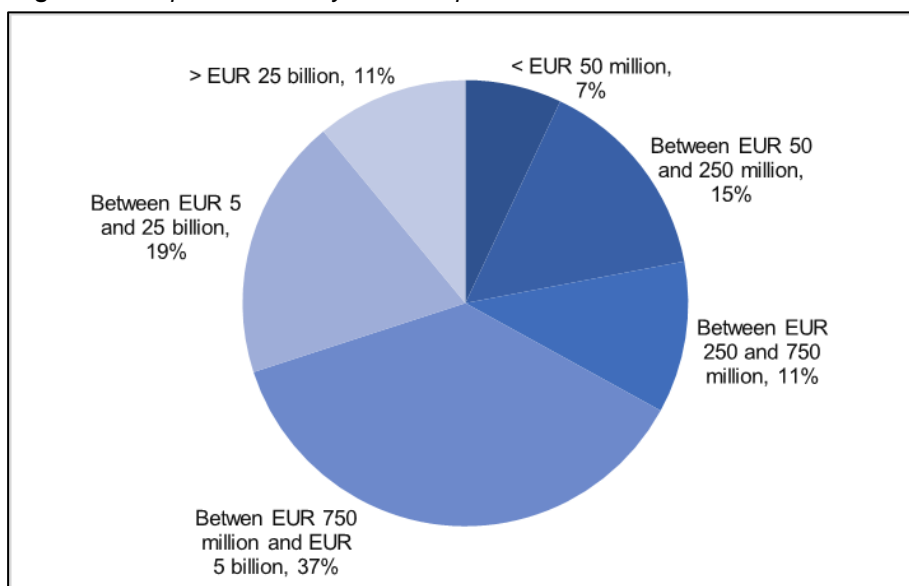
<sup>9</sup> [ESMA32-334-150](#) Report – *On the use of Alternative Performance Measures and on the compliance with ESMA's APM Guidelines*, 20 December 2019

<sup>10</sup> The sample does not include issuers from Croatia, Cyprus, Ireland and Norway. In the three former countries, the European enforcer does not have powers relating to the non-financial statement and in the latter, the Accounting Directive, including Articles 19a and 29a, is not yet finally transposed into national legislation. Furthermore, Liechtenstein is not covered in the sample.

**Figure 6:** Sample of issuers by sector of activity



**Figure 7:** Sample of issuers by market capitalisation



### 3.1.2.1 Environmental matters

#### *Analysis of information provided*

85. In the 2018 ECEP Statement, ESMA highlighted the importance of the disclosure required by Articles 19a and 29a of the Accounting Directive in relation to environmental matters, including in the area of climate change.
86. With this in mind, ESMA welcomes the fact that almost all issuers in the sample provided sufficient description of their policy for addressing environmental matters. Disclosure was less complete in relation to policies for addressing climate change-related matters, in

relation to which 71% of issuers in the sample included sufficient information, almost 20% did not provide any information and 10% provided disclosure in a boilerplate fashion, with main shortcomings including very generic descriptions and information on climate change being in a very early development stage (e.g. numbers without much explanation).

87. Around three quarters of issuers in the sample provided sufficient disclosure on their due diligence processes for environmental matters. Additionally, 6% provided disclosure of a boilerplate nature (e.g. disclosure being very brief or very generic) and 18% did not provide any information on their due diligence procedures for environmental matters. As this is an important area of disclosure, ESMA expects that disclosure will see improvement in coming years as issuers' implementation of the requirements in Articles 19a and 29a progresses.
88. As regards the outcome of issuers' environmental policies, 79% of issuers in the sample disclosed this, and 7% provided information which was deemed to be of a boilerplate nature (for example only narrative description with no concrete indicators, referring to actions in the very distant past, disclosure being very brief). Examples of helpful disclosure included reports with both quantitative measures and accompanying qualitative description as well as concretely defined targets in each of the areas of importance to the issuer (e.g. waste management, consumption of fuel / electricity / steam) and the way the issuer delivered on those targets.
89. ESMA welcomes the fact that 83% of issuers in the sample provided KPIs related to environmental matters, as such information provides concrete evidence of an issuer's efforts in the implementation of its environmental policies and facilitates comparability between issuers. Some KPIs were sector or company specific (e.g. bird anti-collision devices for an electricity company and number of oil spills for an oil company). Among the more frequently disclosed KPIs of a more general relevance were electricity consumption, water consumption, carbon / CO<sub>2</sub> / greenhouse gas emissions, waste emissions and noise emissions.
90. Whereas these KPIs were quite common among issuers in the sample, ESMA observes that issuers used a variety of measurements (e.g. CO<sub>2</sub> emissions were disclosed in terms of total emissions, total emissions at constant production, emissions per ton of production, tons of emissions per production hour and emission intensity ratio). While ESMA acknowledges that metrics will vary to a certain extent according to industry and sector, the plethora of metrics does somewhat hamper comparability across issuers.
91. Looking at disclosure concerning risks, 60% of issuers in the sample provided sufficient disclosure on the principal risks related to both environmental matters and climate change, of which only a small proportion was considered to be of a boilerplate nature (for example information being very brief or only narrative, mentioning risks without explaining how they are monitored or addressed). Furthermore, 14% of issuers disclosed the principal risks related to environmental matters but did not address climate change, and most of this disclosure was furthermore considered boilerplate. The remaining quarter of issuers in the sample did not provide any information on environmental risks at all. ESMA reiterates that the requirement for disclosure of the principal risks stems directly from Article 19a(d) and



29a(d) of the Accounting Directive and that issuers should therefore be more mindful of this requirement in their forthcoming non-financial statements.

92. An important concept in relation to the non-financial disclosure required by the Accounting Directive is the double materiality lens, which requires issuers to provide information both on how they affect the society around them in relation to environment, human rights etc. and how these matters affect the issuer. A little more than half of the non-financial statements in the sample addressed both the impacts of the issuer's activity on the environment and the impact of environmental matters on the issuer's activity and future development, of which a small proportion of disclosure was considered boilerplate. Examples of disclosure related to the impact of the environment on the issuer included a paint company acknowledging that extreme weather conditions could impede the durability of its products, an oil company foreseeing continuously tightening regulatory requirements for fossil fuel companies and a tobacco company explaining that climate change could adversely impact the availability of tobacco leaves. A further third provided information on the impact of the issuer on the environment, again with a small fraction doing so in a boilerplate way. As only half of the issuers in the sample provided sufficient information on the impact of the environment on their activity and future development, ESMA observes that issuers still seem to be developing their understanding of the double materiality requirement.
93. As environmental matters, including climate change, may have adverse consequences of not only an operational but also a financial nature, the 2018 ECEP Statement recommended that issuers provide disclosure in that regard in their non-financial statements. However, only a low proportion of issuers in the sample (16%) provided sufficient disclosure to that effect, including issuers who provided disclosure of a boilerplate nature. Since the financial consequences of environmental matters, and particularly climate change, are of increasing relevance for users of non-financial information, ESMA encourages issuers to give these matters more thorough consideration, in line with the recommendations in the European Commission's Guidelines on reporting climate-related information<sup>11</sup> and in ESMA's 2019 ECEP Statement,<sup>12</sup> in their non-financial statements prepared for the reporting period of 2019.

#### *Enforcement actions*

94. European enforcers took nine enforcement actions in relation to environmental disclosure, or the lack thereof, in 2018 non-financial statements, all by requiring a correction in the future non-financial statement. Fourteen further examinations of 2018 non-financial statements were still ongoing at the end of 2019. Completed actions and ongoing examinations relate to, among other topics, a too narrow reporting scope as the issuer excluded franchises and affiliates that could be impacted by the same environmental

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<sup>11</sup> Communication from the Commission – Guidelines on non-financial reporting: Supplement on reporting climate-related information, OJ C 209, 20.6.2019, p. 1–30

<sup>12</sup> [ESMA32-63-791](#) Public Statement – *European common enforcement priorities for 2019 annual financial reports*, 22 October 2019

factors as the issuer and an issuer claiming to have prepared its non-financial statement in accordance with the GRI standards when in fact it used only a selection of the standards without providing adequate and clear disclosure of this fact.

### **3.1.2.2 Explanation of the rationale for not developing and pursuing certain policies**

#### *Analysis of information provided*

95. Eight percent of the issuers in the sample did not provide a description of their policy for addressing one or more of the matters which the Accounting Directive requires disclosure on. When no policy is pursued in relation to one of these matters, the Accounting Directive requires the non-financial statement to provide a clear and reasoned explanation therefore, irrespective of the fact that the issuer may deem these matters immaterial for its operations. Of the 14 concerned issuers in the sample, 10 did not provide any explanation or only provided a boilerplate explanation.

#### *Enforcement actions*

96. Enforcers took 4 enforcement actions on disclosure, or the absence thereof, related to the issuer's reasons for not developing or pursuing certain policies in the 2018 non-financial statement, and an additional 13 examinations are currently ongoing. Here, enforcement actions related to topics such as lack of disclosure on due diligence processes and on human rights.

### **3.1.2.3 Disclosure of non-financial KPIs**

#### *Analysis of information provided*

97. In addition to a focus on environmental and climate change-related disclosure, the 2018 ECEP Statement set out considerations applicable across the non-financial disclosure areas regarding KPIs. ESMA welcomes the fact that 89% of issuers in the sample provided KPIs relevant to the policies they had disclosed. Apart from KPIs for environmental matters, which are covered in the previous subsection, frequently reported KPIs related to the following:
- i. Reg. social matters: customer satisfaction, donations to local community, number of trainees.
  - ii. Reg. employee matters: accidents, training provided, age and gender distribution of staff, male-female pay gap, women in management, new hires across gender / age / nationality, diversity of staff, employee satisfaction, internal mobility, lost time injury frequency rate, absenteeism, staff turnover.
  - iii. Reg. respect for human rights: number of suppliers who comply with certain further defined principles, number of discrimination incidents, number of screenings / audits of suppliers according to certain criteria.

- iv. Reg. anti-corruption and bribery matters: number of inspections / investigations, number of trainings delivered to staff, number of reports from whistle-blowers.
98. As illustrated in bullet ii above, information was particularly abundant in relation to diversity, and ESMA observes that this is likely to be due, at least in part, to the more detailed disclosure requirements set out in this area in Article 20 of the Accounting Directive, giving issuers clearer instructions on which information they are expected to provide.
  99. Of the issuers who disclosed KPIs, 60% explained why those KPIs were deemed relevant to assess whether the issuer had lived up to its policy, though for 11% the explanations did not cover all KPIs or remained of a boilerplate nature (e.g. relevance not fully clear from the description). While the remaining 40% of the issuers in the sample disclosing KPIs did not explain their relevance, in a number of cases enforcers judged that the KPIs were of such an easily understandable, 'common sense' nature that it was not needed, and in other cases, the absence of explanation was due to the fact that KPIs were those mandated by the disclosure framework based on which the issuer prepared its non-financial statement.
  100. Similarly, of the issuers who disclosed KPIs, two thirds disclosed them in relation to their strategic targets and / or to benchmarks, with only a small proportion of this disclosure being considered boilerplate. ESMA highlights that disclosing KPIs in this context can be a helpful way of increasing their relevance to users and enabling an understanding of the extent to which an issuer addresses non-financial matters as part of its strategy.
  101. The 2018 ECEP Statement additionally highlighted the importance of providing full disclosure of the methodology adopted. Of the issuers in the sample which disclosed KPIs, two thirds provided such disclosure, of which 10% was of a boilerplate nature and / or did not cover all KPIs. ESMA welcomes the fact that almost all of the issuers who disclosed KPIs also explained which of their activities those KPIs covered, thereby providing context and relevance to the KPIs and as such allowing users to assess them in a more meaningful way. ESMA notes that it was furthermore helpful that almost half of the issuers who disclosed KPIs explained changes in the activities which the KPIs covered compared to the previous reporting period or explicitly mentioned that the coverage of the KPIs had not changed.

#### *Enforcement actions*

102. European enforcers took 16 enforcement actions on KPIs included in the non-financial statements, or lack thereof. These actions all took the form of requiring a correction in the future non-financial statement. A further 13 examinations are currently ongoing. The topics that led enforcers to take action included lack of quantitative measures, lack of quantitative targets and measures of progress and the complete absence of non-financial KPIs in the non-financial statement.

### 3.1.2.4 Conclusion regarding the considerations on non-financial statements

#### *Analysis of information provided*

103. Due to the increasing relevance of environmental and particularly climate change-related matters to the investment decisions of users of non-financial statements and in the European policy discourse overall, ESMA highlighted in its 2018 ECEP Statement that issuers should be particularly focused on disclosure in these areas.
104. Based on the non-financial statements reviewed, ESMA observes that there is room for improvement in relation to certain requirements, notably disclosure of the principal risks related to environmental matters and especially climate change, the impact of the environment / climate change on issuers and the financial consequences of that impact. ESMA acknowledges that issuers may still be undergoing a learning curve as regards preparing non-financial information in accordance with the requirements of the Accounting Directive but nevertheless highlights that these important aspects of the non-financial statement merit further urgent enhancements in the upcoming reporting period.
105. In relation to disclosure on non-financial KPIs, ESMA welcomes that most issuers in the sample provided KPIs of relevance to the policies they disclosed for the various non-financial matters. However, ESMA notes that more work is needed on specific aspects of the KPI disclosure, notably explanations of why the KPIs selected by the issuer are relevant, how they relate to the issuer's targets and how they were prepared (methodology). These pieces of information are all necessary for users of non-financial statements to put the KPIs into context and as such meaningfully use the KPIs for their decision-making.
106. Moreover, based on the examinations undertaken by European enforcers of the sample of issuers, ESMA observes that the absence of detailed and uniform disclosure requirements to complement the Accounting Directive has led to disclosure of a wide variety of KPIs.
107. In addition to the above observations on the specific topics covered in the 2018 ECEP Statement, the examination of the 145 issuers in this year's sample led to some more general findings, as follows:
  - ESMA welcomes the improvements in the specificity of the information in the sample of non-financial statements compared to last year. In particular, enforcers noted that the non-financial information was more comprehensive and detailed and that disclosure – including on KPIs – was increasingly adapted to the specificities of the issuer's industry, size and identified risks.
  - This did not mean that there was no room for improvement in the non-financial statements examined, and overall European enforcers most frequently mentioned shortcomings such as lack of quantitative disclosure, lack of objective targets and accompanying assessment of whether the issuer was meeting those targets, insufficient / missing descriptions of due diligence processes – particularly in relation to human rights and social matters, insufficient description of risks and

insufficient disclosure related to environmental and climate change-related matters.

- Based on their examinations, European enforcers also highlighted a number of approaches to non-financial disclosure which they had found particularly clear and helpful for users of non-financial statements. ESMA is of the view that these good practices could serve as inspiration for the preparation of future non-financial statements and therefore mentions a selection in the following paragraphs:
    - The issuer mentions the areas in which it did not live up to its targets and it explains how it will try to change this in the future.
    - For each material topic, the issuer presents its policies, due diligence activities, risks, risk management, targets and results in graphics / matrixes, thereby providing an accessible and clear overview.
    - The issuer is clear about which group entities are covered by the disclosure in the non-financial statement.
    - The issuer clearly explains the methodology it used to prepare the non-financial information, especially regarding calculation of KPIs and determination of (non-)materiality.
    - The issuer presents the information with a clear structure, using, for example, tables of contents, indications of which information fulfils certain requirements in legislation / disclosure frameworks and cross-references between sections that are interlinked.
108. As a final observation, ESMA notes that issuers in the sample used a wide range of disclosure frameworks to prepare their non-financial statements (GRI standards, UN Global Compact, Sustainable Development Goals, ISO 26000, ISO 14001, AA1000 AccountAbility Principles Standard 2008 (AA1000 APS 2008), International Integrated Reporting Framework, the European Commission's Guidelines on non-financial reporting,<sup>13</sup> TCFD, disclosure framework set up by the issuer itself), and that almost 30% of the issuers did not mention having used any framework at all when preparing their non-financial statement. These factors help explain the diversity in the observed reporting practices, e.g. in relation to the disclosure of KPIs.
109. As ESMA commented in its advice to the European Commission on the issue of short-termism in financial markets,<sup>14</sup> there is a call from market participants for a set of principles that can ensure a minimum level of comparability, relevance and reliability of the disclosure required by the Accounting Directive, while remaining compatible with the global

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<sup>13</sup> Communication from the Commission – Guidelines on non-financial reporting (methodology for reporting non-financial information), OJ C 215, 5.7.2017, p. 1–20

<sup>14</sup> [ESMA30-22-762](#) Report – *Undue short-term pressure on corporations*, 18 December 2019

perspective of financial markets. ESMA advised the European Commission to address this call by working towards the promotion of a unified set of international standards on disclosure related to Environmental, Social and Governance (ESG) issues. In the short term, until such a single international disclosure standard can be established, ESMA recommended that the European Commission provide for more detailed disclosure requirements in delegated acts at the EU level, the contents of which should however be compatible with the ultimate goal of adopting international standards.

*Enforcement actions*

110. Overall, European enforcers took 29 enforcement actions against the 145 issuers in the sample, all in the form of requiring the issuer to correct the relevant matter in the future non-financial statement. In addition, 40 examinations in relation to those issuers were still ongoing at the end of 2019. The sample action rate was 19%.

111. The table below reflects the distribution of actions taken across the three focus areas of the 2018 ECEP Statement.

**Table 2:** Enforcement actions on the sample of issuers

	Environmental matters	Explanations reg. absence of policies	KPIs	Total
Reissuance of non-financial statement	0	0	0	<b>0</b>
Public corrective note	0	0	0	<b>0</b>
Correction in future non-financial statement	9	4	16	<b>29</b>
Total number of enforcement actions	<b>9</b>	<b>4</b>	<b>16</b>	<b>29</b>
Sample size	-	-	-	<b>145</b>
Sample action rate	-	-	-	<b>19%</b>

## 3.2 2019 ECEP Statement

112. As in previous years, ESMA and European enforcers agreed on European Common Enforcement Priorities related to IFRS financial statements in advance of the preparation, audit and publication of 2019 annual financial reports and published these in the 2019 ECEP Statement.<sup>15</sup> The Statement furthermore contains considerations on the topics related to other parts of the annual financial report that were identified as particularly important for European issuers for the reporting period of 2019. When selecting the various topics for the Statement, ESMA took into account the result of the examinations of annual financial reports performed in 2019 and consulted with the Consultative Working Group of the Corporate Reporting Standing Committee.
113. Identification of topics in relation to IFRS annual financial statements was done on the basis of, on the one hand, recurrent enforcement issues encountered by European enforcers and discussed in ESMA's permanent working group European Enforcers Coordination Sessions (EECS) and, on the other hand, the expected significant changes that the new IFRS will bring. As such, in relation to financial reporting the 2019 ECEP focus on:
- specific issues related to the application of IFRS 16,
  - follow-up of specific issues related to the application of IFRS 9 for credit institutions and IFRS 15 for corporate issuers, and
  - specific issues related to the application of IAS 12 *Income Taxes* (including application of IFRIC 23 *Uncertainty over Income Tax Treatments*).
114. The 2019 ECEP Statement additionally sets out considerations on sections of the annual financial report other than the financial statements. Firstly, it addresses a number of topics in relation to disclosure of non-financial information under the Accounting Directive. The considerations in this area both address general aspects of non-financial disclosure, e.g. the double materiality lens, and specific topics, namely environmental and climate-change related matters, disclosure of relevant KPIs, use of disclosure frameworks and supply chains. Secondly, the Statement presents considerations on the impact that the implementation of IFRS 16 may have on APMs disclosed by issuers.
115. The 2019 ECEP Statement also draws issuers' attention to the implementation of the European Single Electronic Format (ESEF) requirements which will become applicable to annual financial reports containing financial statements for financial years beginning on or after 1 January 2020. Finally, the Statement highlights the importance of disclosure analysing the possible impacts of the decision of the United Kingdom to leave the EU.
116. Overall, monitoring the way issuers address the priorities and recommendations in the 2019 ECEP Statement is part of the work programme of ESMA and European enforcers,

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<sup>15</sup> [ESMA32-63-791](#) Public Statement – *European common enforcement priorities for 2019 annual financial reports*, 22 October 2019

who will consider these topics in their examinations of the 2019 annual financial reports and will summarise the findings in ESMA's 2020 report on the enforcement and regulatory activities of European enforcers.

### 3.3 Coordination of enforcement decisions

117. In 2019, 53 emerging issues were discussed in the EECS, constituting a slight increase compared to last year where 46 emerging issues were discussed. As regards decisions, European enforcers submitted 48 decisions to the EECS database, 26 of which were discussed, compared to 61 decisions submitted and 22 discussed in 2018. A majority of the decisions that were not discussed in the EECS had previously been discussed in the group as emerging issues. The decrease in the number of submitted decisions reflects the increased time lag between discussion of the emerging issues that related to application of new standards (such as IFRS 15) and decisions. Furthermore, other topics were presented and discussed in a number of roundtables and thematic reviews.
118. The discussions undertaken by European enforcers in the EECS, and the conclusions reached on that basis, are intended to improve the level of consistent application and enforcement of IFRS, subject to the specific facts and circumstances of the transactions discussed. The most common topics of discussion in the group concerned implementation issues related to the application of the new accounting standards IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*, assessment of control in accordance with IFRS 10 *Consolidated Financial Statements* as well as accounting for the consequences of Argentina becoming a country with a hyperinflationary currency. Below, ESMA presents a more detailed description of some topics which were discussed in the EECS during 2019. These examples are neither intended to represent all types of issues discussed nor all areas where the application of IFRS was challenged by European enforcers, but they serve to illustrate some of the issues found and discussed during the year.
119. In relation to application of IFRS 9, the main area of focus in the EECS' discussions continued to be application of IFRS 9 for non-financial companies. As in prior years, a dedicated, temporary task force discussed and shared experiences on the matters related to financial institutions. In relation to financial institutions, discussions revolved around the assessment of SICR, incorporation of forward-looking information, use of multiple economic scenarios as well as the level of transparency in the financial statements of credit institutions regarding the assumptions made and the sensitivity of these assumptions.
120. As in previous years, several issues related to consolidation methods and procedures were discussed as well. These covered the following main areas: assessment of control without the majority of voting rights, application of the consolidation exception for investment companies and assessment of control / joint control when contractual arrangements include specific clauses for taking decisions in case of disagreement between contractual parties.



121. In relation to the application of IFRS 15, the main issues discussed related to the application of IFRS 15 in specific industries, mainly with respect to the combination of contracts, the assessment of whether an entity acts as an agent or a principal, the timing of recognition of revenue (i.e. at point in time or over time) in specific circumstances and the presentation of revenue in the income statement.
122. Finally, in relation to application of IFRS 16, ESMA focused its discussions on the application of the requirements related to the determination of the lease term, the calculation of the discount rate and on transition disclosure related to first-time application of the standard.

### **3.4 EECS database**

123. To enable sharing of enforcement decisions and experiences among enforcers, in 2005 ESMA's predecessor CESR set up an internal database to which enforcers submit decisions taken within their national enforcement process. According to ESMA's Guidelines on Enforcement of Financial Information, enforcers should submit their emerging issues and enforcement decisions if they meet the criteria defined in the Guidelines.
124. At the end of 2019, the EECS database contained 1,164 decisions and 566 emerging issues. As such, the database constitutes a large archive of knowledge, and European enforcers should consult the material in the database before they make significant enforcement decisions. Further information on this process is provided in Annex 1.
125. ESMA publishes enforcement decisions taken by European enforcers on a regular basis. The purpose of these publications is to help market participants understand which accounting treatments European 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 2019, ESMA published one such extract from its enforcement database, containing eight enforcement decisions.<sup>16</sup> ESMA will continue to publish extracts from its enforcement database and notes that its published decisions are included in the database of the International Organization of Securities Commissions (IOSCO).

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<sup>16</sup> [ESMA32-63-717](#) Report – *23rd Extract from the EECS's Database of Enforcement*, 16 July 2019. Please note that as the decisions in the publication are based on the IFRS requirements in place at the time of preparation of the financial statements in question, some of them may now be out-of-date.

### 3.5 Main indicators of national enforcement activity regarding IFRS

126. To monitor European enforcement activity, ESMA collects data on the number of examinations performed and the number of actions taken by European enforcers. At the end of 2018, around 5,700 issuers preparing IFRS financial statements were admitted to trading on a regulated market, of which around 5,000 prepared IFRS consolidated financial statements and around 700 prepared only non-consolidated IFRS financial statements. The examination and action rates presented in this section are based on these figures. Additionally, circa 100 issuers prepared consolidated financial statements under third country Generally Accepted Accounting Principles (GAAP) deemed equivalent to IFRS.
127. These numbers remained broadly stable over the course of 2019. At the end of 2019, approximately 5,500 issuers preparing IFRS financial statements were admitted to trading on a regulated market, of which around 4,800 prepared IFRS consolidated financial statements, and around 700 prepared only IFRS non-consolidated financial statements. For country-by-country information on the number of issuers, please refer to Annex 3.
128. Table 3 presents information on the number of issuers whose financial information was examined by European enforcers over 2019. As can be seen, in 2019 European enforcers performed 519 unlimited scope examinations of the financial statements of IFRS issuers, covering financial statements of around 9% of listed IFRS issuers in Europe (10% in 2018). In addition, the financial statements of 424 IFRS issuers were subject to focused examination, representing a coverage of around 8% of listed IFRS issuers (6% in 2018).<sup>17</sup>
129. Altogether, in 2019 the financial statements of 943 issuers, corresponding to 17% of issuers listed on European regulated markets preparing financial statements under IFRS, were subject to examination by European enforcers (16% in 2018). Of these, 900 IFRS issuers were subject to ex-post examinations (885 in 2018). Furthermore, European enforcers performed follow-ups of examinations completed in previous years on 156 issuers. Such follow-ups are not included in the statistics below. For more detailed information on examinations on a country-by-country basis, please refer to Annex 4.

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<sup>17</sup> Please refer to Annex 1 for an explanation of what is included in an unlimited scope and a focused examination.

**Table 3: Issuers examined during 2019**

	Number of issuers examined			
	Unlimited scope	Focused	Total 2019	Total 2018
<b>EXAMINATIONS OF FINANCIAL INFORMATION IN FINANCIAL REPORTS</b>				
- <b>Ex-post examinations</b>	494	406	<b>900</b>	885
Annual IFRS financial statements	463	364	<b>827</b>	788
Interim IFRS financial statements <sup>18</sup>	31	42	<b>73</b>	97
- <b>Pre-clearances</b>	0	8	<b>8</b>	12
<b>EXAMINATIONS OF FINANCIAL STATEMENTS IN PROSPECTUSES<sup>19</sup></b>				
Financial statements in prospectuses	25	10	<b>35</b>	50
<b>Total number of issuers preparing IFRS financial statements subject to examination</b>	519	424	<b>943</b>	947
Ex-post examinations of financial statements prepared using third country GAAP deemed equivalent to IFRS	4	0	<b>4</b>	7

130. Table 4 puts countries into clusters, depending on how many issuers prepare IFRS financial statements and are admitted to trading on a regulated market (see Annex 3 for more detail).

**Table 4: IFRS issuers per country at 2018 year-end**

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

<sup>18</sup> Where both the interim and annual financial statements of an issuer were examined, only the latter examination is counted.

<sup>19</sup> Please note that only examinations of financial statements in prospectuses related to initial public offerings (IPOs) and first admissions to trading carried out in accordance with Guideline 6 of ESMA's Guidelines on Enforcement of Financial Information are counted in these statistics. Please find more information on prospectus examinations in Annex 4.

131. Table 5 shows that enforcers took actions in 33% of the ex-post examinations performed during 2019 (same sample action rate as in 2018).

**Table 5: Examinations and actions for IFRS issuers in 2019**

	Issuers per cluster - end of 2018	Issuers subject to unlim. scope exam.	Unlim. scope exam. rate	Issuers subject to exam.	Exam. rate <sup>20</sup>	Issuers subject to ex-post exam.	Issuers for which actions were taken	Sample action rate <sup>21</sup>
1-99 issuers	742	90	12%	175	24%	169	54	32%
100-249 issuers	1,412	133	9%	269	19%	256	96	38%
250-449 issuers	1,745	166	10%	280	16%	263	37	14%
>450 issuers	1,782	130	7%	219	12%	212	112	53%
<b>2019 indicators</b>	<b>5,681</b>	<b>519</b>	<b>9%</b>	<b>943</b>	<b>17%</b>	<b>900</b>	<b>299</b>	<b>33%</b>
<i>2018 indicators</i>	<i>5,853</i>	<i>612</i>	<i>10%</i>	<i>947</i>	<i>16%</i>	<i>885</i>	<i>296</i>	<i>33%</i>
<i>2017 indicators</i>	<i>5,956</i>	<i>686</i>	<i>12%</i>	<i>1,141</i>	<i>19%</i>	<i>1,005</i>	<i>328</i>	<i>32%</i>

132. Table 6 illustrates the overall distribution of the actions taken by European enforcers during 2019 across type of action and the type of financial statement and type of issue to which they related. In around 20% of the actions taken, European 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 (22% in 2018), while in the remaining 80% of actions enforcers considered a correction in the future financial statements sufficient (78% in 2018). Please refer to Annex 5 for the disaggregated number of actions per country.

<sup>20</sup> Number of issuers examined divided by total number of issuers.

<sup>21</sup> Number of issuers for which actions were taken divided by number of issuers subject to ex-post examination.

133. Around 30% of the actions taken during 2019 related to issues regarding recognition and / or measurement, while 70% of the actions related only to disclosure issues.

**Table 6: IFRS issuers for which actions were taken<sup>22</sup>**

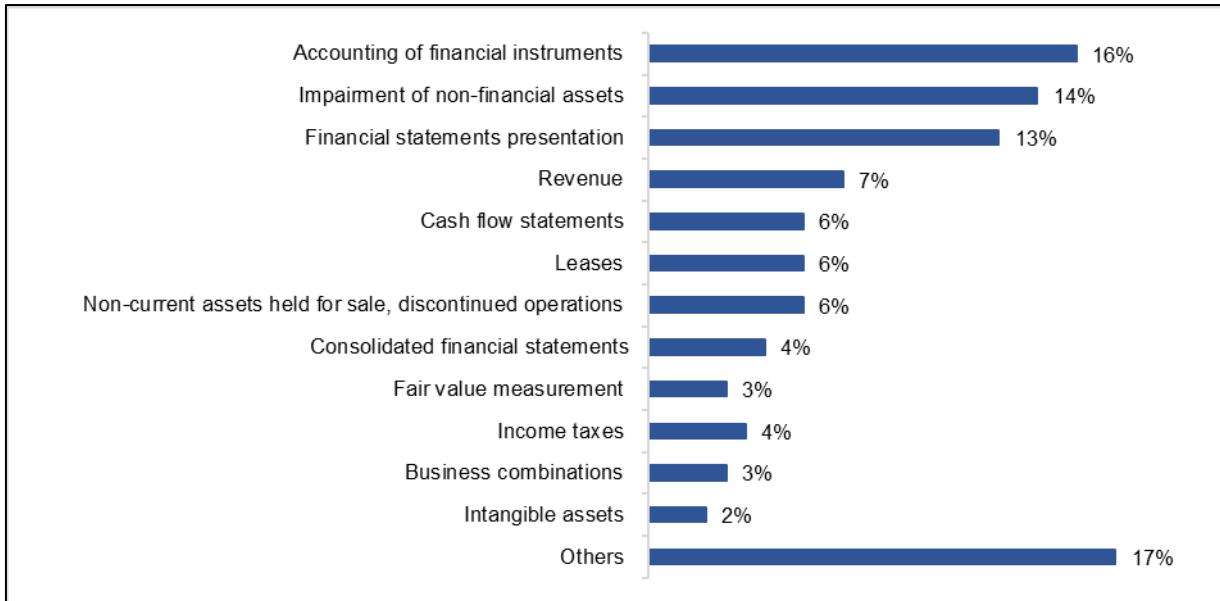
	Relating to recognition and / or measurement		Relating only to disclosure <sup>23</sup>		Total
	Annual IFRS financial statements	Interim IFRS financial statements	Annual IFRS financial statements	Interim IFRS financial statements	
Require a reissuance of financial statements	2	1	1	0	4
Require a public corrective note	30	2	19	3	54
Require a correction in future financial statements	49	5	180	7	241
<b>Total 2019</b>	<b>81</b>	<b>8</b>	<b>200</b>	<b>10</b>	<b>299</b>
<i>Total 2018</i>	<i>96</i>	<i>23</i>	<i>155</i>	<i>22</i>	<i>296</i>
<i>Total 2017</i>	<i>181</i>		<i>147</i>		<i>328</i>

<sup>22</sup> 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 counted.

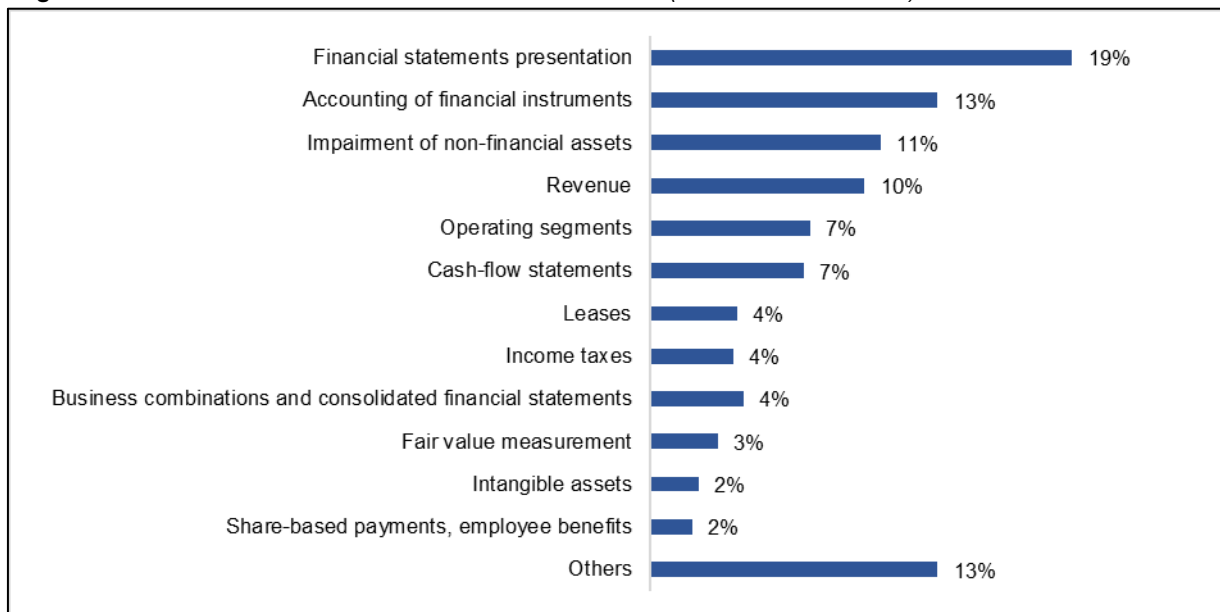
<sup>23</sup> Actions defined as relating to disclosure only are those actions requiring further disclosure or changes in the disclosure provided (including changes in the figures) but also include presentation issues which do not relate to measurement or recognition.

134. Lastly, Figures 8 and 9 present the areas in which enforcers took actions in 2019, relating to issues with recognition and / or measurement and issues with disclosure. In relation to both, as in 2018, most actions were taken in the three areas of accounting of financial instruments, impairment of non-financial assets and presentation of financial statements.<sup>24</sup> In addition, a fourth area was prominent across both types of actions – issues relating to revenue, stemming from the new IFRS 15 requirements.

**Figure 8:** Areas addressed with enforcement actions in 2019 (issues with recognition and / or measurement)



**Figure 9:** Areas addressed with enforcement actions in 2019 (issues with disclosure)



<sup>24</sup> With respect to recognition on the one hand and presentation and / or disclosure on the other hand.

### 3.6 Main indicators of national enforcement activity regarding other parts of the annual and interim financial reports

135. In addition to monitoring the level of enforcement activity across the EEA in relation to IFRS annual and interim financial statements, ESMA furthermore collects data on enforcement activity related to APMs and non-financial statements. This data is described in the following sections.

#### 3.6.1 Non-financial statements

136. In most EEA countries, 2019 was the second year in which European enforcers examined non-financial statements drawn up based on the provisions of the Accounting Directive relating to the non-financial statement (Articles 19a and 29a). The number of listed issuers within the scope of these articles in 29 of the 31 EEA countries was around 2,700 at the end of 2018.<sup>25</sup>

137. During 2019, European enforcers undertook 937 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 examinations related to checking only whether the non-financial statement had been prepared ('existence only' – 55%) while other examinations furthermore 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' – 45%). Combining the two kinds of examination, the examination rate in 2019 was 35%. The table below provides the detailed breakdown of the examinations performed during 2019.

**Table 7:** Issuers examined for the purpose of the amended Accounting Directive

	Existence only	Existence and content	Total
Non-financial statement included in annual management report	334	270	604
Non-financial statement presented as separate document	184	149	333
<b>Total</b>	<b>518</b>	<b>419</b>	<b>937</b>

<sup>25</sup> Liechtenstein and Norway are not covered by this number. For some countries, only data estimates made on a best-effort basis were available. Please note that while the number of issuers shows an increase compared to the number at the end of 2017 – 2,600 – this is generally due to the inclusion of further jurisdictions in the data compilation rather than to an actual increase in issuers.

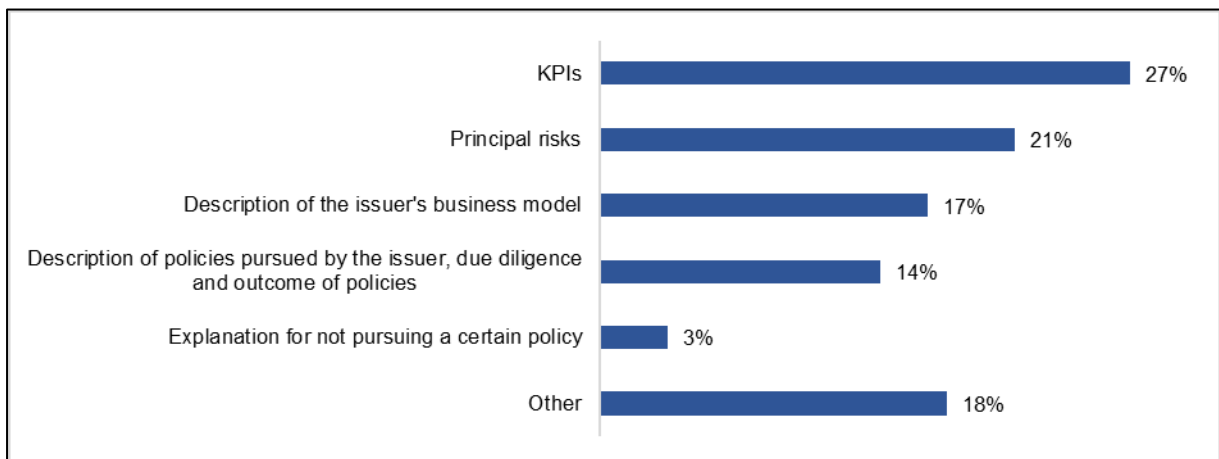
138. As detailed further in Table 8, the 937 examinations of non-financial statements in 2019 led to 95 enforcement actions, causing an action rate of 10%. The overwhelming majority of actions were requiring the issuer to make a correction in a future non-financial statement. Please note that one enforcement action can relate to multiple areas of non-compliance.

**Table 8:** Enforcement measures undertaken regarding the non-financial statement

	Non-financial statement included in annual management report	Non-financial statement presented as separate document	Total
Require a reissuance of the non-financial statement	0	0	<b>0</b>
Require a public corrective note	2	0	<b>2</b>
Require a correction in future non-financial statement	84	9	<b>93</b>
<b>Total actions</b>	<b>86</b>	<b>9</b>	<b>95</b>
Other measures	0	2	<b>2</b>

139. The following figure illustrates the topics on which enforcement actions were taken during 2019. Almost half of all actions related to disclosure – or the lack thereof – regarding KPIs and the issuer’s principal risks.

**Figure 10:** Areas addressed with enforcement actions in 2019





### 3.6.2 Alternative Performance Measures

140. ESMA's 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. During 2019, European enforcers examined 712 management reports to evaluate the presentation and disclosure of APMs. Almost 90% of the examinations covered all principles of the Guidelines. Table 9 presents more detail on the examinations.

**Table 9:** Issuers examined for the purpose of the APM Guidelines

	All principles of the Guidelines	Selected principles of the Guidelines	Total
Annual management report	606	41	<b>647</b>
Interim management report	28	37	<b>65</b>
<b>Total</b>	<b>634</b>	<b>78</b>	<b>712</b>

141. Table 10 further summarises the examinations undertaken by enforcers in 2019 related to the annual and interim management reports of IFRS listed issuers. The table divides EEA countries into the same clusters used in section 3.5 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. Like in 2018, the overall examination rate was 13%, and the overall action rate was also largely stable, at 15% compared to 18% in 2018.

**Table 10:** Examinations and actions regarding management reports of IFRS issuers related to APMs

	Issuers per cluster – end of 2018	Total issuers subject to examinations	Examination rate <sup>26</sup>	Total issuers for which actions were taken	Action rate <sup>27</sup>
1-99 issuers	742	246	<b>33%</b>	28	<b>11%</b>
100-249 issuers	1,412	143	<b>10%</b>	25	<b>17%</b>
250-249 issuers	1,745	193	<b>11%</b>	12	<b>6%</b>
≥450 issuers	1,782	130	<b>7%</b>	44	<b>34%</b>
<b>Total</b>	<b>5,681</b>	<b>712</b>	<b>13%</b>	<b>109</b>	<b>15%</b>

<sup>26</sup> Number of issuers examined divided by total number of issuers.

<sup>27</sup> Number of issuers for which actions were taken divided by number of examinations carried out.

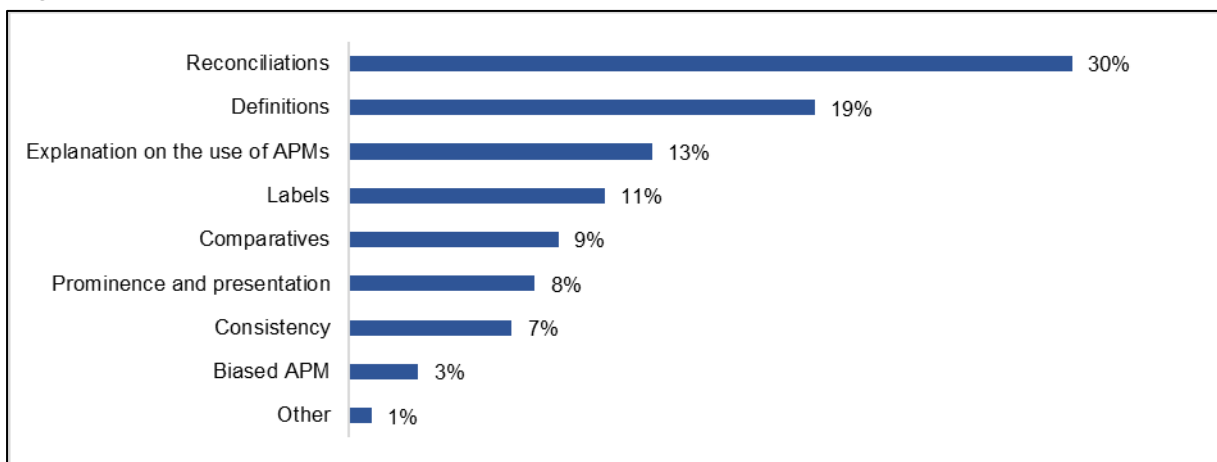
142. Providing further detail regarding the actions taken on the management reports of listed IFRS issuers in 2019, Table 11 shows whether actions related to the annual or the interim management report and which type of action was taken. As in 2018, the large majority of actions consisted of enforcers requiring a correction in a future management report. Please note that one enforcement action can relate to multiple areas of non-compliance.

**Table 11:** Management reports of IFRS issuers for which actions were taken

	Annual management report	Interim management report	Total
Require a reissuance of the management report	0	2	2
Require a public corrective note	9	0	9
Require a correction in future management report	93	5	98
<b>Total</b>	<b>102</b>	<b>7</b>	<b>109</b>

143. Lastly in relation to the activities undertaken by European enforcers during 2019, the below figure illustrates the topics on which enforcement actions related to compliance with ESMA's APM Guidelines were taken. The figure shows that, similar to last year, the areas in which most infringements were identified were reconciliations, definitions and explanations, closely followed by labels.

**Figure 11:** Areas addressed with enforcement actions in 2019



## 3.7 Other activities related to supervisory convergence

### 3.7.1 Report on APMs

144. In 2019, ESMA published a report on European issuers' use of Alternative Performance Measures (APMs) and their compliance with ESMA's APM Guidelines.<sup>28</sup> The report builds on desktop reviews of 2018 annual financial reports and ad-hoc disclosure of annual earnings results and on evidence from European enforcers' experience with the application of the APM Guidelines in prospectuses.
145. The report shows that the use of APMs is widespread in all sectors and all regulated documents. The most commonly used APMs include EBIT (Earnings Before Interest and Tax), Operating Results, EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation) and Net Debt. Significant diversity exists in the number and type of APMs used and their labels and definitions. ESMA's assessment of issuers' compliance with the Guidelines shows that there is significant room for improvement in issuers' compliance with the principles of reconciliations, definitions and explanations in relation to all APMs used.
146. ESMA expects issuers to consider the findings of the report when preparing their future communications to the market containing APMs, notably financial reports, ad-hoc disclosure and prospectuses. ESMA and enforcers will continue to monitor the application of the Guidelines and to take appropriate actions in case of infringements. ESMA will share the report with the IASB as part of its contribution to the IASB's exposure draft consultation on General Presentation and Disclosures.

### 3.7.2 Amendments to ESMA's Guidelines on Enforcement of Financial Information

147. Upon the 2017 peer review on the implementation of ESMA's Guidelines on Enforcement of Financial Information, in 2019 ESMA worked on amending the Guidelines to strengthen supervisory convergence. To this end, amendments were made to the definitions of examinations, to Guideline 5 *Selection Methods* and to Guideline 6 *Examination procedures*. The amendments aim to (i) harmonise enforcers' practices for selecting issuers for examination and for subsequently examining the financial information of those issuers, (ii) increase the focus of examinations on recognition and measurement issues and (iii) ensure that examination procedures and conclusions are adequate and robust.
148. The amended Guidelines were published on 4 February 2020 and will become effective on 1 January 2022.<sup>29</sup>

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<sup>28</sup> [ESMA32-334-150](#) Report – *On the use of Alternative Performance Measures and on the compliance with ESMA's APM Guidelines*, 20 December 2019

<sup>29</sup> [ESMA32-50-218](#) Guidelines – *On enforcement of financial information*, 4 February 2020

### **3.7.3 Public Statement on IAS 12 *Income Taxes***

149. In July 2019, ESMA published a Public Statement on IAS 12 *Income Taxes*, setting out its expectations regarding the application of the requirements relating to the recognition, measurement and disclosure of deferred tax assets (DTAs) arising from unused tax losses in IFRS financial statements.<sup>30</sup> The Public Statement stems from the findings and discussions of the EECS, where several cases highlighted that significant divergence exists in the application and enforcement of the requirements on deferred tax losses arising from unused tax losses carried forward.
150. The Public Statement aims to promote consistent application of IAS 12 across Europe and includes key messages that issuers should take into account when recognising deferred tax assets in their financial statements and that auditors and audit committees should consider in their examinations. It provides insights on issues on which enforcers usually challenge issuers. These include, in particular, the need for issuers to thoroughly assess the nature and extent of evidence which supports the conclusion that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised and, whenever relevant, the need to provide high-quality disclosure.
151. ESMA and European enforcers will continue to monitor the application of the requirements set out in IAS 12 and will pay attention to the issues highlighted in this Public Statement when performing examinations of financial statements.

### **3.7.4 European Single Electronic Format**

152. For ESMA's activities related to the ESEF during 2019, please refer to sections 4.2 and 4.4.

### **3.7.5 Consolidated list of issuers under the Transparency Directive**

153. Since Q1 2016, for internal purposes ESMA has prepared a consolidated list of issuers whose securities are admitted to trading on a regulated market in the EU and who are as such subject to Directive 2004/109/EC (the Transparency Directive).<sup>31</sup> The list is prepared twice per year with the objective of identifying the home Member State of all issuers under the Transparency Directive and as such ensuring that there is no duplication or absence of supervision of issuers. The list is accompanied by a methodological framework which provides guidance on how and when European enforcers may cooperate with each other and contact issuers for the identification and disclosure of their home Member State. During

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<sup>30</sup> [ESMA32-63-743](#) Public Statement – *Considerations on recognition of deferred tax assets arising from the carry-forward of unused tax losses*, 15 July 2019

<sup>31</sup> 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 and amending Directive 2001/34/EC, OJ L 390, 31.12.2004, p. 38

2019, ESMA continued to collect information from enforcers and provide guidance to address any inconsistency identified in relation to the list.

### 3.8 Work programme for 2020

154. In 2020, ESMA will continue its activities in the area of corporate reporting with the objective of promoting a harmonised application of the rules in place to ensure transparency of financial and non-financial information. As usual, this will include drawing up a statement on European Common Enforcement Priorities as well as organising discussions among, and coordinating the enforcement activities of, European enforcers.
155. In the area of financial reporting, particular attention will continue to be paid to the consistent enforcement of the new standards IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*, as these standards were applied for the first time in 2018 or 2019 and 2020 is therefore the first or second period during which enforcement of annual financial reports prepared using these standards will occur.
156. ESMA will furthermore conduct a review of accounting practices on IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interest in Other Entities* to supplement the IASB's post-implementation review of those standards.
157. As regards non-financial reporting, ESMA will continue to facilitate and promote convergent supervisory approaches in this area, including by considering the need for a supervisory convergence tool based on the input shared by enforcers. ESMA will furthermore continue the training effort commenced in 2019 to allow enforcers to share their experiences as they build them.
158. In relation to APMs, ESMA will monitor the market's reactions to the report it issued at the end of 2019 and will consider whether further actions are needed on this basis.
159. In the area of electronic reporting, ESMA's main activities will follow from the work it undertook in 2019. As such, ESMA will address any implementation issues which arise from the regulatory technical standards (RTS) and Reporting Manual on the ESEF and will generally monitor market developments to assess the need for any further support to market participants in this area. Furthermore, ESMA will coordinate the activities of European enforcers with a view to promoting a convergent and robust implementation of Commission Delegated Regulation (EU) 2019/815 (the ESEF Regulation).<sup>32</sup>

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<sup>32</sup> 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 standard on the specification of a single electronic reporting format, OJ L 143, 29.5.2019, p. 1-792

160. In addition, ESMA will continue to contribute to the work of the Committee of European Audit Oversight Bodies (CEAOB) by facilitating further cooperation and dialogue between securities regulators and audit oversight bodies at the European level.
161. Please find more information regarding the supervisory convergence work planned in the area of corporate reporting in section 4.2.8 of ESMA's Annual Work Programme for 2020.<sup>33</sup>

## 4 Single rulebook

### 4.1 Contribution to accounting standard-setting

#### 4.1.1 Contribution to the European endorsement process

162. In 2019, 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 European enforcers on the application of IFRS in Europe.
163. Furthermore, ESMA continued to contribute actively to the European endorsement process by participating as an official observer in the Accounting Regulatory Committee.
164. ESMA published five letters providing feedback on EFRAG's draft comment letters addressing the IASB exposure drafts (EDs) on proposed amendments to IAS 1,<sup>34</sup> IAS 12,<sup>35</sup> IAS 37,<sup>36</sup> IFRS 17<sup>37</sup> and to address the IBOR reform,<sup>38</sup> respectively. ESMA also published one letter to comment on EFRAG's draft comment letter on the IFRS Foundation's ED on the proposed amendments to the Due Process Handbook.<sup>39</sup>

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<sup>33</sup> [ESMA20-95-1132](#) 2020 Annual Work Programme, 26 September 2019

<sup>34</sup> [ESMA32-61-380](#) Letter to EFRAG – EFRAG's Draft Comment Letter on IASB's Exposure Draft Disclosure of Accounting Policies, 14 November 2019; [ESMA32-61-379](#) Letter to IASB – IASB's Exposure Draft Disclosure of Accounting Policies 14 November 2019

<sup>35</sup> [ESMA32-61-378](#) Letter to EFRAG – EFRAG's Draft Comment Letter on IASB's Exposure Draft Deferred Tax related to Assets and Liabilities arising from a Single Transaction, 14 November 2019; [ESMA32-61-369](#) Letter to the IASB – IASB's Exposure Draft Deferred Tax related to Assets and Liabilities arising from a Single Transaction, 14 November 2019

<sup>36</sup> [ESMA32-61-325](#) Letter to EFRAG – EFRAG's Draft Comment Letter on IASB's Exposure Draft Onerous Contracts – Cost of Fulfilling a Contract Proposed Amendments to IAS 37, 15 April 2019; [ESMA32-61-326](#) Letter to the IASB – IASB's Exposure Draft Onerous Contracts – Cost of Fulfilling a Contract Proposed amendments to IAS 37, 15 April 2019

<sup>37</sup> [ESMA32-61-368](#) Letter to EFRAG – EFRAG's Draft Comment Letter on IASB's Exposure Draft Amendments to IFRS 17, 23 September 2019; [ESMA32-61-369](#) Letter to the IASB – IASB's Exposure Draft Amendments to IFRS 17, 23 September 2019

<sup>38</sup> [ESMA32-61-351](#) Letter to EFRAG – EFRAG's Draft Comment Letter on IASB's Exposure Draft Interest Rate Benchmark Reform – Proposed amendments to IFRS 9 and IAS 39, 18 June 2019; [ESMA32-61-354](#) Letter to the IASB – IASB's Exposure Draft Interest Rate Benchmark Reform – Proposed amendments to IFRS 9 and IAS 39, 18 June 2019

<sup>39</sup> [ESMA32-61-359](#) Letter to EFRAG – ESMA response to EFRAG's Draft Comment Letter on the IFRS Foundation Exposure Draft – Proposed amendments to the IFRS Foundation Due Process Handbook, 17 July 2019; [ESMA32-61-352](#) Letter to the IFRS Foundation Trustees – IFRS Foundation Exposure Draft – Proposed amendments to the IFRS Foundation Due Process Handbook, 17 July 2019

165. ESMA furthermore contributed to EFRAG's consultation on *Equity Instruments – Research On Measurement* aiming at fulfilling the request for technical advice from the European Commission on alternative accounting treatments to fair value through profit or loss for equity instruments.<sup>40</sup> In its response, ESMA highlighted the importance of transparent and timely reporting of information on the performance and risks underlying financial instruments held by issuers to promote investor protection and the efficient allocation of capital and that, from this perspective, IFRS 9 seems to cater for the necessary information. ESMA also noted that it is too early to be able to assess any effects of IFRS 9 on long-term investment decisions and therefore, this aspect should be addressed as part of the IASB's post-implementation review of IFRS 9.

#### 4.1.2 Cooperation with the IASB

166. As in previous years, throughout 2019 a permanent ESMA working group composed of IFRS experts from 14 different European enforcers together with ESMA staff met regularly to discuss major accounting projects. On this basis, ESMA submitted five letters to the IASB and one letter to the IFRS Foundation providing feedback on the EDs already mentioned in section 4.1.1.

167. Furthermore, the EECS met twice with representatives of the IASB and the International Financial Reporting Standard Interpretation Committee (IFRS IC) in order to discuss complex issues identified by European enforcers and for which there is no specific IFRS guidance or where widely diverging application appeared to exist. Among others, accounting subjects such as application of new accounting standards or assessment of de-facto control were discussed. Whenever relevant, these discussions are taken into consideration by European enforcers when carrying out enforcement activity.

168. Finally, while not an official observer to the IFRS IC, ESMA contributed to the IFRS IC work by identifying and submitting agenda item requests in relation to three issues where ESMA identified diversity in application of the accounting standards, because the requirements were not considered sufficiently clear. These issues related to:

- Determination of lease term for cancellable leases,<sup>41</sup>
- Presentation of lump-sum compensation payments in the airline industry,<sup>42</sup> and
- Specific application issues on hyperinflationary accounting.<sup>43</sup>

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<sup>40</sup> [ESMA32-61-356](#) Letter to EFRAG – *ESMA response to EFRAG's consultation on Equity Instruments – Research on Measurement Project*, 11 July 2019; [ESMA32-61-353](#) Response to public consultation – *ESMA response to the EFRAG consultation on Equity Instruments – Research on Measurement Project*, 11 July 2019

<sup>41</sup> [ESMA32-63-697](#) Letter to the IFRS IC – *Agenda Item Request: Determination of the lease term*, 29 March 2019

<sup>42</sup> [ESMA32-63-711](#) Letter to the IFRS IC – *Agenda Item Request: Presentation of lump-sum compensation payments in the airline industry*, 17 April 2019

<sup>43</sup> [ESMA32-63-699](#) Letter to the IFRS IC – *Agenda Item Request: Application of hyperinflationary accounting*, 17 April 2019

## 4.2 European Single Electronic Format

169. In May 2019, ESMA's RTS on the ESEF were published in the Official Journal of the EU as Commission Delegated Regulation 2019/815 (the ESEF Regulation). The ESEF Regulation, setting out the electronic format in which from the financial year 2020 all issuers with securities listed in an EU regulated market subject to the requirements of Article 4(1) of the TD shall prepare their annual financial reports, entered into force on 18 June 2019.
170. Shortly thereafter, ESMA published a technical update of the RTS to update the taxonomy that issuers shall use in preparation of their annual financial reports starting from 2020, and thereby incorporated in the ESEF Regulation the 2019 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 in December 2019.
171. ESMA also published for the first time in March 2019,<sup>44</sup> and then updated in December 2019,<sup>45</sup> XBRL taxonomy files to facilitate implementation of the requirements set out by the RTS on ESEF. The taxonomy is made up of a set of electronic files ('ESEF XBRL taxonomy files') which provide a structured representation of the elements that substantively constitute the core taxonomy and which are annexed to the RTS. The March 2019 version of the taxonomy files reflects the version of the IFRS taxonomy included in the draft RTS on ESEF (the 2017 ESEF taxonomy), while the December 2019 publication reflects the version of the IFRS taxonomy included in the updated RTS on ESEF (the 2019 ESEF taxonomy).
172. ESMA expects that in the future, as the IFRS evolve, the IFRS Taxonomy will evolve as well and therefore the ESEF Regulation – via draft updates to the RTS on ESEF – and the ESEF XBRL taxonomy files will need to be updated accordingly.
173. Finally, in July 2019, ESMA published an update to the ESEF Reporting Manual<sup>46</sup> aimed at all market participants involved in the implementation of the requirements set out in the ESEF Regulation, and in particular to first-time preparers of IFRS consolidated financial statements in Inline XBRL. The Manual was originally published by ESMA in December 2017 and is intended to provide guidance on issues commonly encountered when generating Inline XBRL instance documents in compliance with the ESEF Regulation.

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<sup>44</sup> [ESMA ESEF Taxonomy 2017](#), March 2019

<sup>45</sup> [ESMA ESEF Taxonomy](#), December 2019

<sup>46</sup> [ESMA32-60-254rev](#) ESEF Reporting Manual – *Preparation of Annual Financial Reports in Inline XBRL*, 12 July 2019



### 4.3 Activities related to non-financial reporting

174. ESMA actively contributed to the development of the European Commission's initiatives to update its Guidelines on non-financial reporting by taking part in the work leading to the publication of the report of the Commission's Technical Expert Group on Sustainable Finance on climate-related disclosure.<sup>47</sup> In addition, ESMA contributed<sup>48</sup> to the Commission's consultation on the revision of the Guidelines on non-financial reporting. In its letter to the Commission, ESMA emphasised the need for more robust disclosure requirements and, in particular, suggested that the specificity of Articles 19a and 29a of the Accounting Directive be increased to promote consistency in disclosure and enforcement practices by reconsidering the significant optionality in these provisions (for example, the choice amongst various applicable frameworks, the location and timing of publication of the non-financial statement, the difference in enforcement powers of European enforcers and the level of assurance provided).
175. Finally, in December 2019 ESMA published its advice to the European Commission on undue short-term pressure on corporations in which it addressed, amongst other topics, ESG disclosure and provided a number of recommendations to the Commission to improve the applicable requirements in the Accounting Directive.<sup>49</sup> In particular, ESMA recommended addressing the lack of standardisation in the area of non-financial reporting by introducing more specific requirements on key principles underpinning high-quality non-financial information and a limited set of specific disclosure requirements, including indicators and relevant targets. These measures would aim at addressing the short-term need to improve comparability and relevance of non-financial information in the EU and enable a better coordination between the availability of data from investee companies and the disclosure obligation imposed on investment companies under Regulation (EU) 2019/2088 (the Sustainable Finance Disclosure Regulation or SFDR).<sup>50</sup>
176. ESMA underlined that the above measures should be an intermediate step until a more complete standardisation can be achieved through the establishment of a unified set of international ESG disclosure standards. To achieve such an international standardisation, ESMA therefore recommended that the European Commission, in parallel with the short-term measures mentioned in the previous paragraph, assess the feasibility of promoting the adoption of a single set of international standards for ESG disclosure in the medium term. ESMA highlighted that it is ready to assist the Commission in delivering on these recommendations.

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<sup>47</sup> [Report on Climate-related Disclosures, EU Technical Expert Group on Sustainable Finance, January 2019](#)

<sup>48</sup> [ESMA32-334-109](#) Letter to the European Commission – *Revision of the European Commission's Non-Binding Guidelines on Non-Financial Reporting*, 26 March 2019

<sup>49</sup> [ESMA30-22-762](#) Report – *Undue short-term pressure on corporations*, 18 December 2019

<sup>50</sup> 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, OJ L 317, 9.12.2019, p. 1–16

## 4.4 Activities related to the Audit Regulation

177. During 2019, ESMA continued its membership (without voting rights) of the CEAOB. ESMA contributed actively to the CEAOB's work by providing input from the perspective of securities regulators. Furthermore, ESMA chaired the Subgroup on International Equivalence and Adequacy and within that role coordinated the delivery of the technical equivalence and adequacy assessments for those third countries under the transitional regime (i.e. Bermuda, Cayman Islands, Egypt, Indonesia and South Africa) and established the prioritisation criteria for the revision of the previous equivalence decisions adopted on the basis of the 2006 EU audit framework. The Subgroup also analysed the impact of the United Kingdom's departure from the EU in the audit field and possible appropriate measures to be adopted within Regulation (EU) No 537/2014 (the Audit Regulation)<sup>51</sup> and the CEAOB. In 2019, following the technical assessment of the Subgroup, the European Commission also adopted the positive adequacy decision of the competent authorities of the People's Republic of China.
178. During 2019, ESMA furthermore contributed as observer to the work of the CEAOB Subgroup on the audit of the ESEF, providing technical expertise on the ESEF Regulation and support to the development of the non-binding Guidelines on the audit of the ESEF,<sup>52</sup> which were published in November 2019.
179. For more information on the work of the CEAOB, including in the areas mentioned above, please refer to the CEAOB's annual report.<sup>53</sup>
180. In addition to the work undertaken within the CEAOB, ESMA continued to monitor developments in the auditing field in 2019.

## 4.5 International cooperation

181. In 2019, ESMA continued to maintain regular contact with other IFRS enforcers across the world in order to exchange practical experience on IFRS enforcement.
182. These contacts included discussions with the US Securities and Exchange Commission (SEC). ESMA's predecessor CESR and later on ESMA has engaged in cooperation and ongoing dialogue with the SEC since 2006 as part of a shared objective of promoting high quality and consistent application of financial reporting standards and avoiding conflicting regulatory approaches to the application of both IFRS and US Generally Accepted Accounting Principles (US GAAP). Areas of joint interest include the application of converged accounting standards, issues related to enforcement, electronic reporting

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<sup>51</sup> 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, OJ L 158, 27.5.2014, p. 77–112

<sup>52</sup> [CEAOB guidelines on the auditors' involvement on financial statements in European Single Electronic Format, Committee of European Audit Oversight Bodies, 28 November 2019](#)

<sup>53</sup> [CEAOB Annual Report 2019, Committee of European Audit Oversight Bodies, 13 March 2020](#)

requirements, areas of accounting related to foreign private issuers and various other matters connected to issuers and market behaviour.

## **4.6 Work programme for 2020**

183. ESMA's key objective in relation to the EU single rulebook on corporate reporting continues to be to contribute to the establishment of accounting standards of a high quality through sharing the views of European enforcers on new pronouncements and endorsement advice.
184. In 2020, ESMA will continue to contribute actively to the EU's accounting standard-setting and endorsement process through its observership of the EFRAG Board and TEG. In addition, ESMA will continue to provide its views to the various groups under the IASB which develop the IFRS, including the IFRS Advisory Council and the IFRS Taxonomy Consultative Group (ITCG).
185. In the audit area, ESMA will furthermore provide its views on relevant International Standards on Auditing (ISA) and continue to participate in the CEAOB, including as chair of the Subgroup on International Equivalence and Adequacy.
186. Please find more information regarding the single rulebook work planned in the area of corporate reporting in section 4.4.8 of ESMA's Annual Work Programme for 2020.<sup>54</sup>

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<sup>54</sup> [ESMA20-95-1132](#) 2020 Annual Work Programme, 26 September 2019

## Annex 1: Description of the European enforcement process

### ESMA's role

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

### The Guidelines on Enforcement of Financial Information

#### *Background*

On the basis of Article 16 of Regulation (EU) No 1095/2010 (the ESMA Regulation),<sup>55</sup> in 2014 ESMA published its Guidelines on Enforcement of Financial Information (ESMA/2014/1293), aiming at strengthening the supervisory convergence in the enforcement practices amongst the competent authorities designated in each EEA country and / or in some cases by other entities which have received a delegation for this purpose.<sup>56</sup> In February 2020, a revised version of the Guidelines was published.<sup>57</sup> 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 added. The revisions to the Guidelines will become effective on 1 January 2022, and the remainder of this annex, as well as the data collected based on the Guidelines throughout this report, therefore refers to the original version of the Guidelines.

European enforcers are required to confirm in writing to ESMA whether they comply, intend to comply or do not (intend to) comply with the Guidelines. Currently, 26 EEA countries have indicated to ESMA that they comply with the Guidelines.<sup>58</sup>

#### *Focus*

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

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<sup>55</sup> 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, OJ L 331, 15.12.2010, p. 84–119

<sup>56</sup> A list of European enforcers is included in Annex 2.

<sup>57</sup> [ESMA32-50-218](#) Guidelines – On enforcements of financial information, 4 February 2020

<sup>58</sup> [ESMA32-67-142](#) Guidelines compliance table – *Guidelines on the enforcement of financial information (ESMA/2014/1293)*, 21 March 2019

The financial information of issuers whose securities are admitted to trading on a regulated market is subject to enforcement, regardless of which reporting framework it has been prepared under. This means that European enforcers examine financial information drawn up in accordance with:

- IFRS as endorsed by the EU (for consolidated and non-consolidated financial statements),
- National 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).

However, the main focus for ESMA is on the requirements of the Transparency Directive in relation to the application of Regulation (EC) No 1606/2002 (the IAS Regulation)<sup>59</sup> and as such on issues related to IFRS as endorsed by the EU.

#### *Key definitions and concepts*

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

European 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 / or 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.

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

According to Guideline 7, whenever 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,

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<sup>59</sup> Regulation (EC) No 1606/2002 of 19 July 2002 of the European Parliament and of the Council on the application of International Accounting Standards, OJ L 243, 11.9.2002, p. 1–4

- Require a corrective note: This action entails that either the issuer or the enforcer itself publishes a material misstatement with respect to 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 adopts an acceptable treatment in the next accounts and corrects the prior year by restating the comparative amounts or otherwise includes additional disclosure not requiring the restatement of comparatives.

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

Furthermore, European enforcers seek to improve the quality of future financial statements, by engaging in activities designed to provide helpful guidance to issuers, such as defining enforcement priorities and / or pre-clearance procedure.<sup>60</sup>

#### *European Enforcers Coordination Sessions*

ESMA's activities on supervisory convergence of enforcement are carried out mainly through the EECS, a forum of 40 European enforcers from the various EEA countries who act in the area of supervision and enforcement of financial information. With responsibility for coordination of supervision of approximately 5,500 listed issuers preparing IFRS financial statements, EECS currently constitutes the largest regional enforcers' network with supervision responsibilities for IFRS.

According to Guideline 10, through the EECS, European 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, either before or after decisions are taken. When time constraints do not allow waiting until the next EECS physical meeting to discuss an emerging issue (seven meetings took place in 2019), issues can be discussed in ad-hoc conference calls or through written procedure.

The purpose of the EECS discussions is to offer an opportunity to benefit from the experience of other enforcers who already encountered similar issues, and to gather useful input for the analysis of technical issues. 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,

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<sup>60</sup> 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.



European enforcers are to take account of the outcome of previous discussions in the EECS when making enforcement decisions.

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 European enforcers are able to identify areas with a lack of guidance or divergent interpretations of IFRS. Such areas are subsequently referred to the IASB or the IFRS IC, as appropriate.

## Annex 2: List of European 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 Services Authority Danish Business Authority	Danish FSA DBA
Estonia	Estonian Financial Supervision Authority	EFSA
Finland	Finnish Financial Supervisory Authority	FIN-FSA
France	Financial Markets Authority	AMF
Germany	Federal Financial Supervisory Authority Financial Reporting Enforcement Panel	BaFin FREP
Greece	Hellenic Capital Market Commission	HCMC
Hungary	Central Bank of Hungary	MNB
Iceland	Central Bank of Iceland <sup>61</sup> Directorate of Internal Revenue	CB RSK
Ireland	Central Bank of Ireland <sup>62</sup> Irish Auditing and Accounting Supervisory Authority	CBI IAASA
Italy	Companies and Securities National Commission	Consob
Latvia	Financial and Capital Markets Commission	FCMC
Liechtenstein	Liechtenstein Financial Market Authority	LFMA

<sup>61</sup> As of 1 January 2020, the Financial Supervisory Authority (FME) merged into the Central Bank of Iceland (CB).

<sup>62</sup> 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 the Transparency Directive.



Lithuania	Bank of Lithuania	LB
Luxembourg	Financial Markets Supervisory Commission	CSSF
Malta	Malta Financial Services Authority	MFSA
Netherlands	Netherlands Authority for the Financial Markets	AFM
Norway	Norway Financial Supervisory Authority	NFSA
Poland	Polish Financial Supervision Authority	PFSA
Portugal	Securities National Commission Bank of Portugal Insurance and Pension Funds Supervisory Authority	CMVM BP IPFSA
Romania	Financial Supervisory Authority	ASF
Slovakia	National Bank of Slovakia	NBS
Slovenia	Securities Market Agency	SMA
Spain	Spanish Securities Market Commission	CNMV
Sweden	Swedish Financial Supervisory Authority Nämnden för svensk redovisningstillsyn <sup>63</sup>	Swedish FSA NSR
United Kingdom <sup>64</sup>	Financial Conduct Authority Financial Reporting Council	FCA FRC

<sup>63</sup> Nordic Growth Market NGM AB and Nasdaq Stockholm AB were European enforcers until 31 December 2018. Following a change in Swedish law, the Swedish FSA remains the national competent authority for the purposes of the Transparency Directive, but as of 9 January 2019 certain activities related to enforcement of financial information are delegated to the new entity *Nämnden för svensk redovisningstillsyn*.

<sup>64</sup> While the United Kingdom withdrew from the EU on 1 February 2020, the activity undertaken by the Financial Conduct Authority and the Financial Reporting Council during 2019 is covered in this report.

## Annex 3: Number of IFRS issuers per EEA country

Country	Consolidated IFRS financial statements				Non-consolidated IFRS financial statements		Total IFRS issuers	
	Issuers of equity		Issuers of bonds and securitised debt		2018	2019	2018	2019
	2018	2019	2018	2019				
<b>Austria</b>	55	57	29	28	0	0	<b>84</b>	<b>85</b>
<b>Belgium</b>	113	109	2	2	0	0	<b>115</b>	<b>111</b>
<b>Bulgaria</b>	111	110	17	18	183	187	<b>311</b>	<b>315</b>
<b>Croatia</b>	77	72	7	7	51	41	<b>135</b>	<b>120</b>
<b>Cyprus</b>	61	59	0	0	17	17	<b>78</b>	<b>76</b>
<b>Czech Republic</b>	24	24	10	9	28	38	<b>62</b>	<b>71</b>
<b>Denmark</b>	113	109	17	19	19	18	<b>149</b>	<b>146</b>
<b>Estonia</b>	18	24	4	4	2	7	<b>24</b>	<b>35</b>
<b>Finland</b>	125	126	18	19	0	0	<b>143</b>	<b>145</b>
<b>France</b>	445	425	31	28	2	1	<b>478</b>	<b>454</b>
<b>Germany</b>	392	383	19	20	4	4	<b>415</b>	<b>407</b>
<b>Greece</b>	139	134	4	4	40	37	<b>183</b>	<b>175</b>
<b>Hungary</b>	32	33	3	1	14	12	<b>49</b>	<b>46</b>
<b>Iceland</b>	17	20	20	20	8	8	<b>45</b>	<b>48</b>
<b>Ireland</b>	32	30	6	3	51	52	<b>89</b>	<b>85</b>
<b>Italy</b>	229	222	7	7	12	8	<b>248</b>	<b>237</b>
<b>Latvia</b>	8	8	8	8	5	4	<b>21</b>	<b>20</b>
<b>Lithuania</b>	21	21	2	2	7	6	<b>30</b>	<b>29</b>
<b>Luxembourg</b>	43	40	20	21	59	50	<b>122</b>	<b>111</b>
<b>Malta</b>	19	20	14	17	22	26	<b>55</b>	<b>63</b>
<b>Netherlands</b>	134	126	15	9	29	28	<b>178</b>	<b>163</b>
<b>Norway</b>	179	183	55	60	26	23	<b>260</b>	<b>266</b>
<b>Poland</b>	347	338	1	1	41	43	<b>389</b>	<b>382</b>
<b>Portugal</b>	40	37	9	11	4	3	<b>53</b>	<b>51</b>

Country	Consolidated IFRS financial statements				Non-consolidated IFRS financial statements		Total IFRS issuers	
	<i>Issuers of equity</i>		<i>Issuers of bonds and securitised debt</i>		2018	2019	2018	2019
	2018	2019	2018	2019				
<b>Romania</b>	36	36	1	3	55	58	<b>92</b>	<b>97</b>
<b>Slovakia</b>	13	13	6	6	9	7	<b>28</b>	<b>26</b>
<b>Slovenia</b>	25	25	7	7	0	0	<b>32</b>	<b>32</b>
<b>Spain</b>	133	135	6	5	0	0	<b>139</b>	<b>140</b>
<b>Sweden</b>	327	336	29	33	14	12	<b>370</b>	<b>381</b>
<b>United Kingdom</b>	1,062	931	242	230	0	0	<b>1,304</b>	<b>1,161</b>
<b>Total</b>	<b>4,370</b>	<b>4,186</b>	<b>609</b>	<b>602</b>	<b>702</b>	<b>690</b>	<b>5,681</b>	<b>5,478</b>

## Annex 4: 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 2019 by European enforcers on the basis of the Guidelines on Enforcement of Financial Information, as published in 2014 (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 2019, whereas examinations of IFRS financial statements started in 2019 that were still ongoing at the end of 2019 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).<sup>65</sup>

#### *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 the 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 Guidelines on Enforcement of Financial Information on a voluntary basis for the examination of financial statements contained in IPO prospectuses.

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<sup>65</sup> Please note that the majority of enforcers scrutinise financial statements contained in prospectuses as part of their procedures to approve prospectuses. Therefore, when prospectus scrutiny 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.

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 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 include also thematic reviews, providing assistance to other regulatory tasks (for example, the review of press releases), activities in relation to new developments and regulations (such as the ESEF) and so forth.

As another example, although the Guidelines on Enforcement of Financial Information provide definitions of ‘unlimited scope examination’ and ‘focused examination’, they allow a certain degree of flexibility in application. The experience of ESMA’s Peer Review on the application of certain of the Guidelines has shown that those instruments are not applied in the same manner by all enforcers, and procedures in place remain not fully comparable. As such, some enforcers limit their examination procedures to the review of disclosure; others focus mainly on measurement and recognition issues. Some consider that unlimited scope examinations should require interaction with issuers, where others do not. These topics are addressed in the revised version of the Guidelines, published in February 2020 (please refer to Annex 1 for further information). However, as the revisions are not effective yet, readers are invited to be mindful of the abovementioned limitations when analysing the data in the table.

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

Country	Total examinations	Disaggregation by type		Disaggregation by nature		
		<i>Unlimited scope</i>	<i>Focused</i>	<i>Ex-post</i>	<i>Financial information contained in prospectus</i>	<i>Pre-clearance</i>
<b>Austria</b>	<b>18</b>	16	2	16		2
<b>Belgium</b>	<b>19</b>	13	6	17	1	1
<b>Bulgaria</b>	<b>42</b>	38	4	42		
<b>Croatia</b>						
<b>Cyprus</b>	<b>10</b>	2	8	10		
<b>Czech Republic</b>	<b>12</b>	7	5	12		
<b>Denmark</b>	<b>17</b>	15	2	16		1
<b>Estonia</b>	<b>11</b>	6	5	10	1	
<b>Finland</b>	<b>20</b>	8	12	17	3	

Country	Total examinations	Disaggregation by type		Disaggregation by nature		
		<i>Unlimited scope</i>	<i>Focused</i>	<i>Ex-post</i>	<i>Financial information contained in prospectus</i>	<i>Pre-clearance</i>
France	86	64	22	79	3	4
Germany	72	67	5	72		
Greece	31	13	18	31		
Hungary	2	2		2		
Iceland	6	6		6		
Ireland	26	8	18	26		
Italy	71	27	44	65	6	
Latvia	3	2	1	3		
Lithuania	4	3	1	3	1	
Luxembourg	44	24	20	44		
Malta	13	2	11	13		
Netherlands	35	16	19	35		
Norway	44	20	24	31	13	
Poland	93	15	78	89	4	
Portugal	8	4	4	8		
Romania	31	13	18	29	2	
Slovakia	28	19	9	28		
Slovenia	3		3	3		
Spain	32	17	15	31	1	
Sweden	29	26	3	29		
United Kingdom	133	66	67	133		
<b>Total</b>	<b>943</b>	<b>519</b>	<b>424</b>	<b>900</b>	<b>35</b>	<b>8</b>

## Annex 5: 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 European enforcers took action during 2019, 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 2019 (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, as further described in Annex 1.

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		3		3
Belgium		4	9	13
Bulgaria		4		4
Croatia				
Cyprus			1	1
Czech Republic	1		9	10
Denmark		6	4	10
Estonia				

Country	Require a reissuance of financial statements	Require a public corrective note	Require a correction in future financial statement	Total
Finland		2	4	6
France		0	66	66
Germany		13		13
Greece			16	16
Hungary			2	2
Iceland				
Ireland	1	8	11	20
Italy		7		7
Latvia	1		1	2
Lithuania			2	2
Luxembourg			25	25
Malta			7	7
Netherlands			3	3
Norway			3	3
Poland			3	3
Portugal			4	4
Romania				
Slovakia				
Slovenia			3	3
Spain	1	7	8	16
Sweden			14	14
United Kingdom			46	46
<b>Total</b>	<b>4</b>	<b>54</b>	<b>241</b>	<b>299</b>