European Securities and Markets Authority

Report

ESMA Report on Enforcement and Regulatory Activities of Accounting Enforcers in 2014

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List of abbreviations and acronyms used in this report

APM	Alternative Performance Measures
AQR	Asset Quality Review
ARC	Accounting Regulatory Committee
NCA	National Competent Authority
CESR	Committee of European Securities Regulators
CP	Consultation Paper
CVA	Credit Value Adjustment
DVA	Debit Value Adjustment
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
EEA	European Economic Area
EEAP	European Electronic Access Point
EECS	European Enforcers Coordination Sessions
EFRAG	European Financial Reporting Advisory Group
EIOPA	European Insurance and Occupational Pensions Authority
ESA	European Supervisory Authority
ESEF	European Single Electronic Format
EU	European Union
GAAP	Generally Accepted Accounting Principles
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standard
IFRS IC	International Financial Reporting Standards Interpretation Committee
Ind-AS	Indian Accounting Standards
IOSCO	International Organization of Securities Commissions
RTS	Regulatory Technical Standard
TEG	Technical Expert Group
US SEC	United States Securities and Exchange Commission

ESMA Regulation	Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC.
IAS Regulation	Regulation (EC) No 1606/2002 of 19 July 2002 of the European Parliament and of the Council on the application of International Accounting Standards.
Transparency Directive	Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market.[1]

[1] as last amended by Directive 2013/50/EU of the European Parliament and of the Council of 22 October 2013. Insofar as relevant, until the time for transposition of Directive 2013/50/EU has run out, references to the Transparency Directive shall be read in accordance with its provisions as in force before their amendment by Directive 2013/50/EU.

Executive Summary

The report provides an overview of the activities of the European Securities and Markets Authority (ESMA) and the accounting enforcers in the European Economic Area (EEA), thereafter, 'European enforcers', when examining compliance of financial information provided by listed issuers on regulated markets with the applicable financial reporting framework in 2014. It also provides a description of the enforcement system in Europe, the main activities performed at European level, quantitative information on enforcement activities in Europe as well as ESMA's contribution to the development of the single rule book in the area of financial reporting.

ESMA Guidelines on enforcement

ESMA published the final Guidelines on enforcement of financial information, which entered into force on 29 December 2014. They apply to all national competent authorities as well as any other bodies in the EU undertaking enforcement responsibilities under the Transparency Directive. The Guidelines constitute a key step in strengthening supervisory convergence across Europe by further building a common approach to the enforcement of financial information and reinforcing coordination among European enforcers. They define the objectives of enforcement, the characteristics of enforcers and set out the principles to be followed throughout the enforcement process, such as the selection methods, examination procedures and enforcement actions. Furthermore, they strengthen the convergence of enforcement activities at European level by codifying European common enforcement priorities and including the requirement to discuss views on accounting matters prior to taking enforcement decisions.

Evaluation of common enforcement priorities for 2013 and setting common enforcement priorities for 2014

In 2014, ESMA and European enforcers evaluated the level of compliance with International Financial Reporting Standards (IFRS) in the areas identified as common enforcement priorities for 2013 annual IFRS financial statements on a sample of 176 IFRS financial statements examined by European enforcers. This assessment identified shortcomings or room for improvement in terms of the provision of insufficient information relating to forbearance practices in the financial statements as well as the lack of disclosure of key assumptions when performing impairment tests for non-financial assets with an indefinite useful life. It resulted in 45 enforcement actions being taken by European enforcers. Furthermore, ESMA, together with European enforcers, identified a set of common enforcement priorities highlighting topics significant for European issuers when preparing their 2014 IFRS financial statements. ESMA included the preparation and presentation of consolidated financial statements and related disclosures, the financial reporting by entities which have entered into joint arrangements, as well as the recognition and measurement of deferred tax assets. ESMA and European enforcers will also continue to assess relevant issues identified in previously published European common enforcement priorities, such as impairment of financial and non-financial assets, fair value measurement, and disclosures of risks arising from financial instruments. Furthermore, ESMA emphasised specific consideration of the financial reporting of European banks, notably those related to the impact of the asset quality review undertaken by the European Central Bank (ECB) on the 2014 IFRS financial statements.

Quantitative information on enforcement

Out of 6400 IFRS issuers listed on European regulated markets, European enforcers examined the interim or annual financial statements of approximately 1500 issuers. The average examination rate of 24% consisted mainly of 13% unlimited scope examinations of annual financial statements and 6% focused examinations of annual financial statements. As a result of these examinations, enforcers took actions addressing material departures against 306 issuers, i.e. as a result of approximately 22% of the ex-post examinations. The main deficiencies were identified in the following areas: financial statements presentation, impairment of non-financial assets and accounting for financial instruments.

Additionally, in 2014, ESMA and European enforcers discussed 47 emerging issues and 68 decisions submitted to European Enforcers Coordination Sessions (EECS).

ESMA contributions to standard setting and endorsement process

ESMA continued to provide its views on enforceability and consistent application in the European process of endorsement of IFRS. In 2014, the European Commission (EC) implemented changes in order to reinforce the EU's contribution to the development of IFRS and the governance of the institutional system for endorsing IFRS in Europe by reforming the European Financial Reporting Advisory Group (EFRAG). ESMA contributed to this reform and strengthened its involvement in EFRAG by actively participating as an official observer in the newly established EFRAG Board as well as in the EFRAG Technical Expert Group (EFRAG TEG). ESMA also continued to participate as an observer in the Accounting Regulatory Committee (ARC).

ESMA contributed to the standard-setting process by engaging with the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC) when relevant issues were discussed and requested additional guidance in areas where a lack of clarity in IFRS could have contributed to their divergent application. ESMA submitted 21 comment letters covering main IASB due process documents by conveying the views of European enforcers on proposed new standards, interpretations and tentative agenda decisions. In July 2014, ESMA signed a joint Statement of Protocols with the IFRS Foundation in order to reinforce the cooperation in areas of mutual interest.

1. Introduction

1. This report provides an overview of the activities related to the supervision and enforcement of financial information carried out during 2014 at European and national levels in the EU and those countries from the EEA[2] who have agreed to comply with the Transparency Directive and the IAS Regulation. These are referred to as 'European' activities in this report.

2. The report is addressed to all stakeholders, including European issuers, investors, auditors, other regulators and the general public. It focuses only on enforcement and regulatory activities related to IFRS financial statements. Consequently, it does not take into account other (non-IFRS) enforcement and regulatory activities conducted by European enforcers.

3. This report describes the existing enforcement system in Europe both at national and European level, provides information on the main activities related to the supervisory convergence performed at European level during 2014 as well as on enforcement activities at national level. Furthermore, it also addresses developments related to ESMA's regulatory role regarding the contribution to the development of the single rule book in financial reporting such as the process of the European system of endorsement of IFRS, interaction with the IASB and activities resulting from the revised Transparency Directive that have given ESMA a role in digital reporting.

2. Description of the enforcement system

4. This section provides a description of the main features of the European enforcement system on financial reporting. Enforcement activity refers to examining compliance of financial information with the applicable financial reporting framework as well as taking appropriate measures when infringements are identified.[3]

2.1. Guidelines on the enforcement of financial information

5. In line with its mandate, on the basis of Article 16 of ESMA Regulation, ESMA published in July 2014 Guidelines on enforcement of financial information (ESMA/2014/807),[4] which aim to strengthen supervisory convergence in the enforcement practices amongst the competent authorities designated in each Member State and/or in some cases by other entities which have received a delegation for this purpose.[5]

6. The Guidelines were published in all the official languages of the EU on 28 October 2014 (ESMA/2014/1293)[6] and became effective from 29 December 2014. Compliance with the Guidelines implies that all competent authorities confirm in writing to ESMA whether they (a) comply; (b) intend to comply; or (c) do not comply or do not intend to comply with the Guidelines. ESMA subsequently compiled the answers received from the competent

[2] Iceland and Norway
[3] Short description of the enforcement process is included in Appendix I
[4] http://www.esma.europa.eu/system/files/2014-esma-1293en.pdf
[5] List of European Enforcers in included in Appendix II
[6] http://www.esma.europa.eu/content/ESMA-Guidelines-enforcement-financial-information

authorities and published a compliance table on its website (ESMA/2015/203).[7] This table identified 21 countries which comply, 3 countries which intend to comply by a particular date and 6 countries which do not comply and do not intend to comply with part of the Guidelines because of conflicts with their existing national legislation or lack of resources.

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

2.2. Structure at European level

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

9. The scope of enforcement of financial information of listed companies on the regulated markets, as defined under the Transparency Directive, covers all reporting frameworks applicable to listed issuers including: IFRS as endorsed by the EU for consolidated financial statements, IFRS as endorsed by the EU or national Generally Accepted Accounting Principles (GAAPs) when applied to non-consolidated financial statements and third country accounting standards for non-European issuers, if deemed equivalent to IFRS as endorsed in the EU. However, the main areas of focus of ESMA are in relation to issues derived from the requirements of the Transparency Directive in relation to the application of the IAS Regulation.

10. ESMA activities on supervisory convergence of enforcement are carried out mainly through the European Enforcers Coordination Sessions (EECS), a forum of 41 European enforcers from 30 EEA Member States who have responsibilities in the area of supervision and enforcement of financial information. With responsibility for coordination of supervision of approximately 6 400 issuers listed on European regulated markets preparing IFRS financial statements, EECS currently constitutes the largest regional enforcers' network with supervision responsibilities for IFRS. The Guidelines on enforcement have highlighted the need to coordinate enforcers' decisions and thus have led to reinforcement of the EECS activities in order to ensure consistent application of IFRS in Europe.

11. Through EECS, European enforcers discuss and share their experience on the application and enforcement of IFRS. In particular, they discuss significant enforcement cases before or after decisions are taken in order to promote a consistent approach to the application of IFRS. In addition, EECS produces technical advice on the issuance of ESMA Statements and/or opinions on accounting matters which deserve specific focus. It also reviews accounting practices applied by European issuers to enable ESMA to monitor market developments and

[7] http://www.esma.europa.eu/system/files/2015-203_compliance_table_-_guidelines_on_the_enforcement_of_financial_information_0.pdf

changes in those practices.

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

3. Supervisory convergence

13. In 2014, ESMA, together with European enforcers, performed a number of activities in order to promote supervisory convergence.

3.1. European Common Enforcement Priorities

14. An important step in fostering supervisory convergence in Europe is establishing common enforcement priorities for financial reporting and communicating them to stakeholders in advance of the finalisation of annual financial statements. ESMA has published European Common Enforcement Priorities since 2012 and believes that announcing those priorities in advance of the finalisation of annual financial statements helps to prevent misstatements and contributes to improvement in the consistency and quality of financial reporting in Europe.

3.2. Assessment of compliance with Enforcement Priorities during 2014

15. In 2014, European enforcers considered the 2013 European Common Enforcement Priorities (ESMA/2013/1634)[8] during the examination process of the 2013 annual IFRS financial statements. In order to ensure a relevant assessment at European level, ESMA analysed enforcement data provided for a sample of 176 issuers from 24 EEA countries selected for examination by European enforcers. This assessment related to: impairment of non-financial assets; fair value measurement and disclosure; and measurement of financial instruments and disclosure of related risks, notably related to forbearance applied by financial institutions.

3.2.1. Impairment of non-financial assets

16. ESMA has consistently assessed the application of IAS 36 *Impairment of Assets* as one of the most challenging areas for issuers, based on shortcomings identified in the disclosures in IFRS financial statements. As a result of the review of the impairment of goodwill in IFRS financial statements (ESMA/2013/2)[9] published in January 2013, ESMA included this topic in the European Common Enforcement Priorities for 2012 year-end and retained specific elements related to the measurement of impairment of non-financial assets as part of European Common Enforcement Priorities for the 2013 year-end.

17. This assessment was performed on a sample of 103 issuers from 22 EEA countries that have significant[10] amounts of non-financial assets with indefinite useful life (goodwill or other intangible assets). The amount of non-financial assets with indefinite useful life recognised in

[8] http://www.esma.europa.eu/system/files/2013-1634_esma_public_statement_-_european_common_enforcement_priorities_for_2013_financial_statements_1.pdf
[9] http://www.esma.europa.eu/system/files/2013-02.pdf
[10] significance was assessed by European enforcers during the examination process using both quantitative and qualitative criteria

the financial statements as of the end of the reporting period represented approximately EUR 285 billion and the amount of impairment recognised on these assets by 34 of these issuers during the period represented almost EUR 25 billion.

18. The review aimed at monitoring the application and compliance with IFRS requirements on goodwill impairment and assessing sufficiency of relevant disclosures. It revealed the following key points regarding the issuers included in the sample:

Assessment of the adequacy of cash flow projections

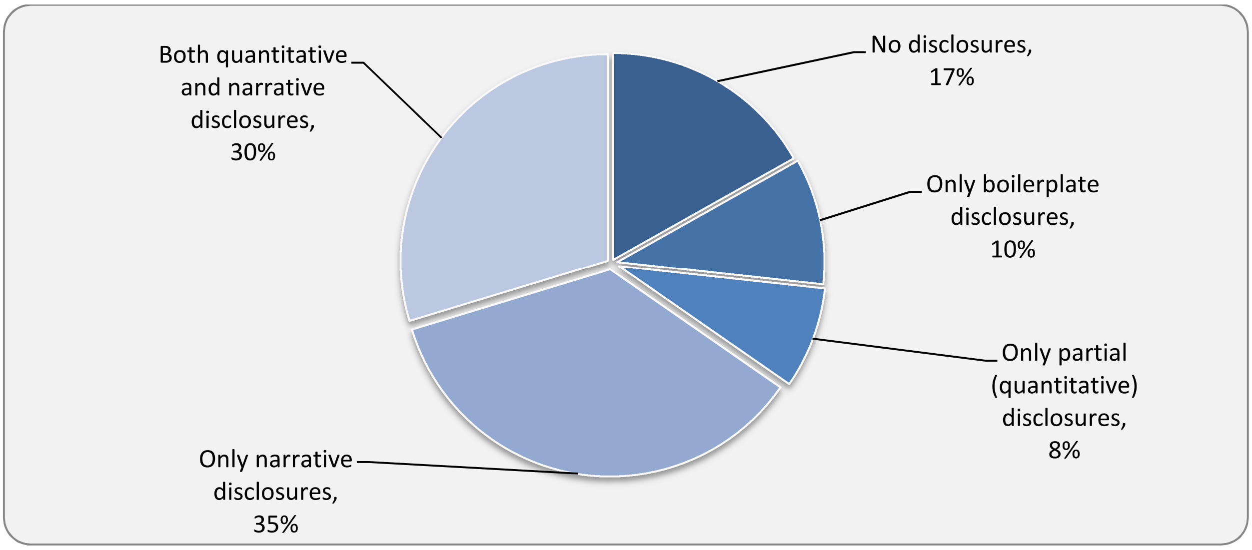
19. More than 90% the issuers in the sample either provided adequate information on cash flow projections in the financial statements or there were no concerns that would have prompted the national enforcer to perform further examination. Less than 10% of the issuers in the sample used cash flow projections that were considered not to be based on reasonable and supportable assumptions reflecting the range of economic conditions and/or were not consistent with the past actual outcomes.

Assessment of 'key operational assumptions'

20. More than three quarters of issuers described the 'key operational assumptions' (i.e. key assumptions other than discount rate and growth rate) used in the impairment test as required by paragraph 134(d)(i) of IAS 36. While one third of the issuers accompanied the narrative disclosures with quantitative description and another third provided sufficient narrative disclosures, the remaining issuers either did not disclose the key assumptions or provided only a generic description.

21. ESMA notes that while paragraph 134(f)(ii) of IAS 36 requires disclosure of quantitative information only if reasonable possible changes in key assumptions would cause the unit's carrying amount to exceed its recoverable amount. However, from the disclosure of quantitative information it cannot be inferred that reasonable possible changes exist which would cause the unit's carrying amount to exceed its recoverable amount. In many cases quantitative information has been disclosed in order to provide additional information to users of financial statements.

Figure 1: Disclosures on key assumptions used for cash-flow projections per issuers



22. More than half of the sample provided a description of management's approach to determining the value assigned to key assumptions and explained in the financial statements whether those values reflect past experience or are consistent with external sources of information. However, where relevant, only a minority of issuers explained in the financial statements why the values assigned to key assumptions were different from external evidence or past experience.

23. Almost two thirds of issuers disclosed key assumptions separately for each significant cash-generating unit (CGU). Furthermore, a quarter of issuers provided this information on an aggregated basis.

24. While ESMA noted there has been continuous improvement in the level of disclosure in comparison with prior years, it remains concerned that more than a third of the issuers in the sample either provided only a generic description, using boilerplate language, or failed to provide specific disclosures of management's approach in determining the value assigned to key assumptions as required by paragraph 134 (d)(ii) of IAS 36.

Sensitivity analysis

25. Around two thirds of the issuers in the sample complied with the requirements of 134(f) of IAS 36, by disclosing sensitivity analysis per CGU (more than a third of the sample) or by providing a statement that no reasonably possible variation of a key assumption would lead to impairment (more than a quarter of the sample). While a majority of the latter group did not provide additional information on what they considered to be a reasonably possible variation, for almost three quarters of the issuers providing this statement the national enforcers concurred with the issuer that no reasonably possible variation of a key assumption would lead to impairment or there were no concerns that prompted the national enforcer to perform further examination. Finally, more than a quarter of the issuers in the sample provided some quantitative information on sensitivity analysis (e.g. in aggregated form) that in most cases enabled the assessment of the sensitivity of the existing headroom in case of a change to the key assumptions.

26. While more than 90% of the issuers providing a sensitivity analysis disclosed sensitivity with regards to changes to the discount rate, only two thirds of the issuers provided the sensitivity with regards to 'key operational assumptions' and the growth rate. While sensitivity analyses disclosed differed in the level of aggregation, ESMA appreciates the improvement in the level of disclosures in comparison to the previous year. Finally, ESMA highlights the importance of providing sufficient information related to the sensitivity analysis of impairment test results directly in IFRS financial statements.

Enforcement actions

27. As a result of the examination of a sample of 103 financial statements, European enforcers took the following enforcement actions against 27 issuers:

- 8 required public corrective notes;
- 19 required corrections in future financial statements.

In addition, 16 issuers received a notification without requiring a corrective action or public announcement. Furthermore, 4 issues were still being considered by the respective national enforcers at the time this assessment was finalised. While most of the actions taken or notifications issued related to the use and disclosure of key assumptions, in a third of the cases, they related to multiple areas of impairment.

3.2.2. Fair value measurement

28. Considering the date of the first application of IFRS 13 *Fair Value Measurement*, ESMA decided to include specific elements in its 2013 European Common Enforcement Priorities. This assessment was performed by European enforcers on a sample of 100 issuers (both financial and non-financial institutions) from 20 EEA countries for which fair value measurement related to the application of IFRS 13 was deemed to be material. More than 90% of this sample included material items classified as level 2 or level 3 of the fair value hierarchy. These issuers included both corporates as well as financial institutions. ESMA highlighted the following issues:

Accounting policy

29. Almost 90% of issuers in the sample properly disclosed the accounting policy in accordance with the definition of fair value in IFRS 13 and disclosed all elements relevant for the issuer in the description of the accounting policy. For the issuers in the sample with items classified as level 2 and/or level 3 of the fair value hierarchy, more than three quarters provided appropriate disclosure of the valuation techniques in the fair value measurement. For the remaining issuers, disclosure of the valuation technique was incomplete or generic, mainly repeating the wording of the standard.

Aggregation

30. Almost all issuers provided disclosures based on appropriate classes of assets and liabilities, higher level of disaggregation for level 3 fair value measurements and adequately disclosed fair value measurements at the end of the reporting period.

Adjustments for credit risk

31. Issues related to adjustments for credit risk in fair value measurement, such as credit valuation adjustment (CVA), were considered significant for approximately half of issuers in the sample. Those affected were mainly financial institutions. More than 90% of the affected issuers accounted for credit risk (CVA) when determining the fair value of derivative financial assets, and for own credit risk (debit valuation adjustment (DVA)) when determining the fair value of derivative financial liabilities. While only one third of issuers specifically disclosed quantitative effects of these adjustments, the impact of CVA or DVA was not significant in most of the cases. However, even when material, disappointingly, less than a half of the issuers provided an appropriate description of the methods of calculation of CVA or DVA.

32. Furthermore, almost a third of issuers applying the fair value option for financial liabilities did not disclose or in some cases even account for the effects of own credit risk adjustments on these financial liabilities.

Fair Value Hierarchy

33. Almost all issuers in the sample provided adequate disclosures on the fair value hierarchy for all significant fair value measurements. While almost 85% of issuers in the sample disclosed

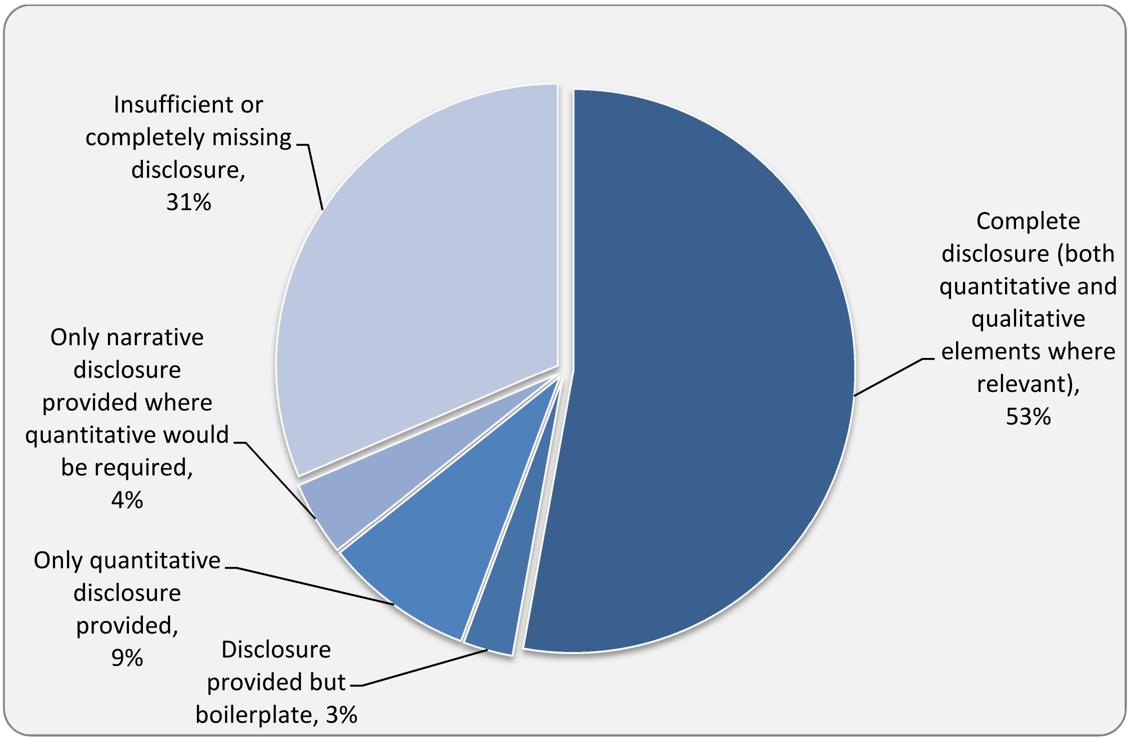
separately the transfers into each level of the fair value hierarchy, three quarters of them explained the reasons for the transfers.

34. Almost 90% of issuers in the sample provided adequate fair value disclosures for non-recurring fair value measurements (e.g. IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*), even though only three quarters of them provided adequate disclosures for assets and liabilities not measured at fair value but for which disclosures about fair value measurement are required according to IFRS 13.

35. More than three quarters of issuers in the sample reported significant recurring level 3 fair value measurements calculated using significant unobservable inputs. More than 90% of these issuers disclosed the effect of the measurements on profit or loss or other comprehensive income for the period for all significant fair value measurements.

36. Almost all issuers in the sample for whom level 3 fair value measurements were significant provided a reconciliation from the opening balances to the closing balances of level 3 assets and liabilities, disclosing the amount of the total gains or losses included in profit or loss that is attributable to the change in unrealised gains or losses relating to those assets and liabilities held at the end of the reporting period, and the line item(s) in which those unrealised gains or losses are recognised. However, more than a quarter of the issuers provided only a generic description of the valuation policy for level 3 fair value measurements. Furthermore, almost a third of the issuers failed to disclose a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs including a description of the interrelationships between the inputs and their effects on the fair value.

Figure 2: Sensitivity of the fair value measurements to changes in unobservable inputs



Enforcement actions

37. In 2014, as a result of the examination of the sample of 100 financial statements, European enforcers took 19 enforcement actions as follows:

- 3 required public corrective notes;
- 16 required corrections in future financial statements.

In addition, notifications were issued to a further 11 issuers without requiring a corrective action or public announcement. One further issue was still being considered by the national enforcer at the time this assessment was being finalised. Most of the actions taken or notifications issued relate to disclosures on level 3 fair value measurements (disclosures on use of valuation techniques, use of unobservable inputs and sensitivity analysis).

3.2.3. Forbearance

38. In light of the importance of transparency in reporting on forbearance measures extended by European banks, and based on the developments in the European economy and on the financial markets, ESMA published in December 2012 a Public Statement on Forbearance Practices (ESMA/2012/853)[11] and included this area in the 2013 European Common Enforcement Priorities.

39. The assessment of the quality of disclosures on forbearance in the 2013 IFRS financial statements was performed on the sample of 48 financial institutions from 21 EEA countries examined by the national enforcers. European enforcers concluded that, out of the sample, 36 financial institutions from 17 jurisdictions extended significant forbearance measures towards their customers. Therefore, the results of the assessment are made on the basis of the analysis of these 36 financial statements.

40. While approximately three quarters of the assessed financial statements referred directly to the concept of forbearance, most of the other institutions implicitly referred to related concepts of loan restructuring or renegotiations. Equally, almost three quarters of the institutions in the sample provided an explicit definition of forbearance measures. While more than half of the financial institutions provided their entity specific definitions, almost a quarter of these institutions referred to the definition provided either by the European Banking Authority (EBA) or in the ESMA Public Statement.

41. More than half of the financial institutions provided a single note on forbearance. Furthermore, two thirds detailed in their financial statements the types of forbearance measures and practices undertaken during the reporting period, and described how the risks related to the forbearance measures are managed and monitored for internal management purposes. Half of the financial institutions in the sample provided accounting policy descriptions for the financial assets that are subject to renegotiated terms, which would have been past due or impaired had this renegotiation not taken place (i.e. by disclosing accounting policies that describe the criteria for recognition of impairment losses for forborne assets).

42. Almost three quarters of the financial institutions in the sample provided specific quantitative information in their notes with respect to forborne financial assets, in particular providing their

[11] http://www.esma.europa.eu/system/files/2012-853.pdf

carrying amount. However, only half of the financial institutions in the sample provided disclosures on the related effects of individual and/or collective impairment. Furthermore, a quarter of issuers in the sample provided a reconciliation from the opening balance to the closing balance of forborne assets and assets subject to a credit event, specifying assets to which these practices have been extended during the reporting period as well as the effect of these practices recognised in profit or loss during the reporting period as recommended by the ESMA Public Statement.

43. Furthermore, a third of the financial institutions in the sample provided disclosures that allow users to ascertain when forbearance measures led to derecognition of the original asset. Yet only few financial institutions disclosed the carrying amount of the newly recognised assets after derecognition of the forborne assets.

44. On the other hand, more than a half of the financial institutions provided in their financial statements the analysis of the credit quality of forborne assets (i.e. information disaggregated into those assets that are neither past due nor impaired, those past due but not impaired, and those considered impaired) together with the level of collateral held.

Enforcement actions

45. In 2014, as a result of the examination of the sample of these financial statements of financial institutions, European enforcers took enforcement actions against 7 issuers as follows:

- 5 required public corrective notes;
- 2 required corrections in future financial statements.

In addition, notifications related to future improvement were issued to a further 12 financial institutions without requiring a corrective action or issuing public announcement. The review of the financial statements of 3 banks was still ongoing at the time this assessment was being finalised.

3.2.4. Follow-up resulting from the assessment of 2013 Enforcement Priorities

46. The following table provides an overview on the enforcement actions taken on the sample of 176 issuers. A detailed analysis reveals that enforcement actions were taken in relation to a quarter of the issuers. In many cases, enforcement actions cover several areas of the same set of IFRS financial statements.

47. Although, in relation to impairment of financial assets and forbearance, ESMA and European enforcers acknowledge improvements in the quality of application of IFRS in the 2013 financial statements, in light of the economic environment as well as of the fact that examination by national enforcers is performed on a sample basis, in 2015, where material in a specific examination, these areas will continue to be the focus of examination by national enforcers.

Table 3: Number of enforcement actions on the sample of issuers in relation to the European Common Enforcement Priorities

Enforcement Action	Impairment of non-financial assets	Fair value measurement	Forbearance	Total number of issuers with enforcement action[12]
Public corrective notes	8	3	5	10
Corrections in future financial statements	19	16	2	32
Total number of enforcement actions	**27**	**19**	**7**	**42**
Sample size	103	100	36	176
Sample action rate	**26%**	**19%**	**19%**	**24%**

3.3. European Common Enforcement Priorities for the 2014 year-end

48. In October 2014, ESMA together with European enforcers identified European Common Enforcement Priorities in advance of the preparation, audit and publication of 2014 annual IFRS financial statements. The ESMA Public Statement (ESMA/2014/1309)[13] contained the financial reporting topics that were identified as particularly significant for European issuers on the basis of relevant economic and financial market factors observed at the end of 2014. When selecting the topics, ESMA took into account the result of reviews of financial statements performed in 2014, and consulted with the Consultative Working Group of the Corporate Reporting Standing Committee.

49. The 2014 priorities focus on the application of three new standards in relation to the preparation and presentation of consolidated financial statements, the financial reporting by entities which have entered into joint arrangements (IFRS 10-12) as well as on the recognition and measurement of deferred tax assets (IAS 12). In addition, specific consideration was required with regard to the financial reporting of European banks as well as on the quality and relevance of disclosures in notes to the financial statements.

50. Monitoring the way issuers address these priorities is part of the work programme of ESMA and European enforcers, who will consider these topics in their examinations of 2014 year-end IFRS financial statements. ESMA will report in its Activity Report for 2015 on how European issuers applied the IFRS requirements in relation to these topics.

51. Throughout the year, ESMA and European enforcers discussed the ECB Asset Quality Review (AQR), its implications for IFRS financial statements and the role of accounting enforcement in this process. They considered that enforcers' examinations should not be seen as competing with the AQR, as their scope, purpose and objectives were different. In the European Common

[12] As enforcement actions might cover several areas of the same set of IFRS financial statements, the total number of issuers is lower than the total of the sample sizes in the respective areas.
[13] http://esma.europa.eu/system/files/2014_1309_esma_public_statement_-_2014_european_common_enforcement_priorities.pdf

Enforcement Priorities, ESMA encouraged banks to provide sufficient information on any material impact of the AQR on their financial statements in a specific note in their 2014 IFRS financial statements.

52. In 2015, ESMA plans to further reinforce its cooperation with the ECB Single Supervisory Mechanism. This will consist primarily in following up relevant issues related to the IFRS reporting of European banks. This would also include a follow-up by ESMA and national enforcers on European banks reporting on AQR results in the 2014 IFRS financial statements.

3.4. Coordination of enforcement decisions

53. A key part of ESMA's coordination role lies in analysing and discussing enforcement issues in respect of IFRS financial statements. Most discussions in EECS refer to issues faced by an individual enforcer that are of relevance to other European enforcers, or of significant importance to European regulated markets or of widespread effect around Europe. Discussion can take place on an ex-ante (emerging issues) or an ex-post (decisions) basis and usually deal with a variety of situations where enforcers seek guidance and insight from fellow enforcers prior to taking a decision. EECS discussions offer an opportunity to benefit from the experience of other enforcers who already encountered similar issues, and to discuss their analysis of technical issues. When time constraints do not allow waiting until the next EECS physical meeting (9 meetings took place in 2014), emerging issues are discussed during *ad hoc* conference calls or through written procedure.

54. From discussions on 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.

55. In 2014, 47 emerging issues and 68 decisions were submitted for discussion in the EECS. All emerging issues and the most complex decisions were analysed and discussed in EECS meetings. Discussions at EECS are intended to improve the level of consistent application and enforcement of IFRS subject to the specific facts and circumstances situations or transaction being discussed. The examples presented below are neither intended to represent all types of issues discussed nor all areas where the application of IFRS was challenged by European enforcers. They are merely illustrative of some of the issues most frequently encountered.

Fair value measurement (IFRS 13)

56. ESMA and European enforcers regularly discussed issues related to the application of the 2013 European Common Enforcement Priorities (see Section 3.2. of this report). In particular, ESMA and European enforcers focused on issues related to fair value measurement in IFRS 13. Some decisions concerned the criteria for the measurement of fair value, and in particular the existence of an active market. ESMA and European enforcers considered that an issuer should consistently use quoted prices to measure the fair value of its financial assets, even though a decrease in the volume of activity occurred. They concluded by noting that, according to IFRS 13, a quoted price is the best indicator of fair value in an active market.

Deferred tax assets (IAS 12)

57. In 2014, ESMA and European enforcers emphasised accounting for income taxes in relation to IAS 12 *Income Taxes*. They identified a number of instances where significant deferred tax assets related to tax losses carried forward were recorded in excess of recognised taxable

temporary differences and decided to remind issuers of the requirements in IAS 12. These allow entities with a history of recent losses to recognise a deferred tax asset in relation to unused tax losses carried forward only when there is convincing evidence that sufficient future taxable profits will be available to offset unused tax losses. Based on discussions among European enforcers, one of the major aspects of this lies with the nature of the convincing evidence that justifies recognition of a deferred tax asset, in particular, in relation to sufficiency of the evidence supporting recognition of these assets. Additionally, a need was identified for sufficient transparent disclosures on the sensitivity of the deferred tax asset to the highly judgmental assumptions in the business plans that support the existence of future taxable profits. Enforcers also acknowledged that national tax legislation might influence the rationale for the recognition of deferred taxes in these circumstances.

Uncertain tax positions (IAS 1 and IAS 12)

58. A number of issues related to the recognition and disclosure on the tax effects of uncertain tax positions in financial statements were discussed during several EECS meetings. In this respect, ESMA recalls the recent IFRS IC discussions on this topic and the need for disclosure of accounting policy related to material uncertain tax positions in accordance with paragraphs 117 and 122 of IAS 1 *Presentation of Financial Statements*.

Concept of control (IFRS 10)

59. ESMA and European enforcers discussed several issues linked to the determination of control over an entity in the absence of a majority equity interest or a majority of voting rights in the investee, in line with IFRS 10 *Consolidated Financial Statements*. As the concept of de facto control was only implicit in IAS 27 *Consolidated and Separate Financial Statements,* IFRS 10 could lead to a change in the assessment whether control is achieved by an investor holding less than a majority of voting rights in an investee. As IFRS 10 does not establish any threshold of equity interest held to determine control, issuers need to consider whether they have practical ability to direct the relevant activities of the investee in the absence of a majority equity interest and/or a majority of voting rights in the investee.

60. In light of the number of issues related to the implementation of IFRS 10 and application of IAS 12 in the current economic environment, as pointed out in Section 3.3. of this report, ESMA decided to include specific topics related to these two standards as European Common Enforcement Priorities for the 2014 annual financial statements.

3.5. ESMA enforcement database

61. In 2005, to facilitate the sharing of enforcement decisions and experiences, ESMA established an internal database to which European enforcers submit important decisions they have taken as part of their national enforcement processes. In order to achieve consistent enforcement throughout Europe, European enforcers consult the database before taking significant enforcement decisions. As of 31 December 2014, 786 decisions and 315 emerging issues had been submitted to the EECS database.

62. ESMA regularly publishes enforcement decisions to contribute to the convergence of the application of IFRS and market confidence. As of 31 December 2014, 180 decisions have been included in 16 publications, of which 21 enforcement decisions were included in the two

extracts from the EECS database published in 2014 (ESMA/2014/377[14] and ESMA/2014/1373).[15] ESMA plans to continue publishing enforcement decisions on a semi-annual basis. Published decisions are also communicated to and included in the database of the International Organization of Securities Commissions (IOSCO).

3.6. Main indicators of IFRS enforcement activity

63. In order to monitor the level of enforcement activity, ESMA collects statistics in relation to the number of examinations performed and the number of actions taken by the European enforcers.

64. At the European level, around 6,400 issuers listed on regulated markets[16,17] prepare IFRS financial statements, among which 5,470 prepare consolidated IFRS financial statements and around 1,000 prepare only non-consolidated IFRS financial statements. Furthermore, 142 issuers prepare consolidated financial statements under third country GAAP deemed equivalent to IFRS.

65. In 2014, European enforcers performed unlimited scope examinations of the financial statements of around 1,000 IFRS issuers,[18] covering around 15% of listed IFRS issuers in Europe (13% related to annual financial statements and 2% to interim financial statements). Further, the financial statements of around 540 additional IFRS issuers were subject to focused examination, representing a coverage of another 9**%** of the listed IFRS issuers (6% related to annual financial statements). Altogether, in 2014, the financial statements of 24% of the entities listed on European regulated markets preparing financial statements according to IFRS were subject to examination by national enforcers.

Table 4: Number of issuers examined

	Number of issuers examined		
	Unlimited scope	Focused	Total
Ex-post examinations	***919***	***495***	***1414***
- thereof: Annual IFRS financial statements	826	376	1202
- thereof: Interim IFRS financial statements only	93	119	212
Ex-ante examinations	***72***	***47***	***119***
Total number of issuers preparing IFRS financial statements examined	***991***	***542***	***1533***
Ex-post examinations of financial statements prepared using third country GAAP deemed equivalent to IFRS	*10*	*2*	*12*

[14] http://www.esma.europa.eu/system/files/2014-377_-_15th_extract_from_the_eecs_database_of_enforcement.pdf
[15] http://www.esma.europa.eu/system/files/2014-esma-1373_-_16_extract_eecs_database_published.pdf
[16] This number and subsequent analysis does not include approximately 1000 issuers listed on non-regulated markets, such as the Alternative Investment Market (AIM) of the London stock exchange. While rules of some non-regulated markets require issuers to submit IFRS financial statements, these issuers are not covered by the IAS Regulation.
[17] This number and subsequent analysis does not include the IFRS financial statements entities not listed on regulated markets that are required to prepare IFRS financial statements on the basis of options in the IAS Regulation.
[18] An issuer is counted only once; if both annual and interim financial statements were examined, only annual financial statements are counted.

Table 5: Number of issuers for which actions addressing departures were taken

	Annual IFRS Financial statements	Interim IFRS Financial statements	Total
Require a reissuance of the financial statements	10	11	21
Require a public corrective note	90	-	90[19]
Require a correction in future financial statements	175	20	195
Total number issuers for which actions were taken	***275***	***31***	***306***

66. In 2014, ESMA decided to provide more granular information to reflect the respective size of European markets by providing information by clusters of countries. Clusters have been determined on the basis of the number of issuers listed on regulated markets in each jurisdiction and which prepare financial statements in accordance with IFRS. Following the adoption of ESMA's Guidelines on enforcement of financial information, ESMA changed the reporting of the number of examinations performed and number of actions taken as a result of these examinations. ESMA reports in 2014 the number of issuers whose financial statements have been examined rather than the number of financial statements examined as was the case in 2010-2013. Therefore, the number of examinations performed and actions taken is not fully comparable with the 2010-2013 time series presented in previously published reports.

Table 6: Number of IFRS issuers per country

Number of IFRS issuers	Countries
<100 issuers	Cyprus, Czech Republic, Estonia, Hungary, Iceland, Latvia, Lithuania, Malta, Portugal, Romania, Slovakia, Slovenia
100-249 issuers	Austria, Belgium, Croatia, Denmark, Finland, Greece, Ireland, Luxembourg, Netherlands, Spain
250-499 issuers	Italy, Norway, Poland, Sweden
>500 issuers	Bulgaria[20], France, Germany, United Kingdom

[19] In addition, 22 corrective notes (thereof 17 related to annual financial statements and 5 related to interim financial statements) were published by issuers in response to the initial communication with the enforcer before formal action could have been taken.
[20] More than three quarters of the issuers for Bulgaria refers to entities listed on regulated markets that do not prepare consolidated financial statements, but nonetheless prepare financial statements in accordance with IFRS.

Table 7: Number of examinations and actions of IFRS issuers in 2014

	Number of issuers per cluster	Number of issuers subject to unlimited scope examinations	Unlimited scope examination rate	Total number of issuers subject to examinations	Examination rate[21]	Total number of issuers subject to ex-post examinations	Total number of issuers for which actions were taken	Sample action rate[22]
Countries with <100 issuers	561	86	15%	171	30%	154	26	17%
Countries with 100-249 issuers	1568	282	18%	579	37%	529	137	26%
Countries with 250-499 issuers	1165	230	20%	308	26%	292	29	10%
Countries with >500 issuers	3116	393	13%	475	15%	439	114	26%
Total	**6410**	**991**	**15%**	**1533**	**24%**	**1414**	**306**	**22%**

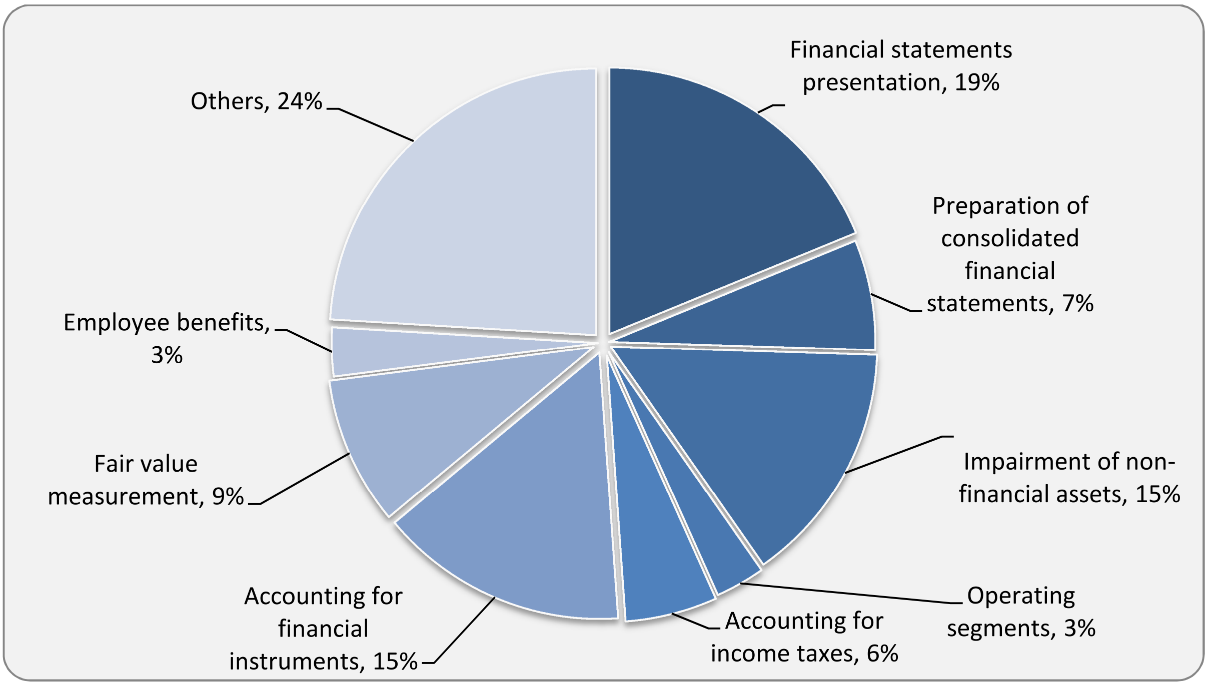
67. In view of the sample action rate of 22%, ESMA considers that there is a room for improvement of quality of IFRS financial reporting in Europe. However, extrapolating the sample action rate to the entire population of issuers listed on regulated markets in Europe would not be appropriate as the selection methods used by European enforcers are based, for a significant part, on an analysis of risks. Therefore, entities selected for examination will not be fully representative of the entire population of listed entities.

68. The coverage of unlimited scope and focused examinations varies significantly from one country to another because of the diversity in the number of issuers per jurisdiction, the level of complexity of their financial statements, the availability of enforcer's human resources and the importance of the financial market. Furthermore, the number of enforcement actions taken in individual jurisdictions varies on the basis of the size and complexity of the capital market, number and type of issuers that have securities admitted to trading on a regulated market and the legal framework in which the national enforcer operates in these specific jurisdictions. Short description of unlimited scope examination and focused examinations is included in Appendix I to this report.

69. ESMA performed an analysis of accounting areas addressed by the actions taken by European enforcers during 2014. An enforcement action related to a single issuer might have contained multiple areas of concern identified. Out of all areas, European enforcers requested corrections by the issuance of corrective notes in 30% of cases and corrections in future financial statements in 70% of cases. When deciding to require a correction in future financial statements (rather than an action leading to information provided directly to the market), enforcers consider the timing of the decision (e.g. time to publication of the next financial statements), its nature and the surrounding circumstances, such as the assessment whether the market is sufficiently informed at the moment the decision is taken. The areas addressed by these enforcement actions are reported in the diagram below.

[21] Number of issuers examined divided by total number of issuers
[22] Number of issuers for which actions were taken divided by number of issuers subject to ex-post examination

Figure 8: Areas addressed by enforcement actions taken in 2014[23]



70. Among the areas addressed by issuance of corrective notes, 22% related to the impairment of non-financial assets, 20% to the accounting for financial instruments and 15% to the preparation of consolidated financial statements (e.g. principles of consolidation).

71. Among the areas addressed by corrections in future financial statements, 25% related to financial statements presentation, 13% to accounting for financial instruments and 12% to impairment of non-financial assets.

72. European enforcers decide to require certain type of action on the basis of the nature of the individual decision and its surrounding circumstances. In those cases where the issue identified related to presentation or disclosure rather than recognition or measurement, enforcers often decide to require correction in future financial statements.

73. About 40% of the actions taken related to the areas included in the European Common Enforcement Priorities for 2013 year-end. Other actions of significant importance related to preparation of consolidated financial statements, accounting for investments in associates and joint arrangements as well as accounting for income taxes. Considering the importance of these areas, ESMA decided to include these particular topics in the European common enforcement priorities for 2014 year-end. These areas represented approximately 13% of all the issues addressed by enforcement actions taken by European enforcers in 2014.

3.7. Review of IFRS accounting practices: Accounting for Business Combinations

74. Through the analysis and comparison of accounting practices applied by IFRS issuers, ESMA

[23] Individual areas addressed by enforcement actions in the diagram may aggregate multiple IFRSs

identifies developing trends in relation to a specific standard or in certain industries in Europe. In general, ESMA performs reviews of accounting practices in response to specific market developments, changes in or evaluation of accounting principles, or as a follow-up to previous studies. Such reviews require the creation of dedicated project teams composed of national experts from European enforcers and ESMA staff. Their work is based on publicly available information, but can also include elements which were available as part of the examination process.

75. In 2014, in order to contribute to the Post-implementation Review of IFRS 3 *Business Combinations*, performed by the IASB, and to evaluate the application of IFRS 3 in Europe, ESMA undertook a review of the application of the requirements of this standard and published its report (ESMA/2014/643)[24] in June 2014. ESMA evaluated the consistency of application of key requirements of IFRS 3 as well as the compliance with entity-specific IFRS 3 disclosures on the basis of a sample of the 2012 annual IFRS financial statements of 56 issuers.

76. In its general observations, ESMA considered that IFRS 3 disclosures have generally been provided by issuers, even though in some cases such disclosures were lacking, such as when they were not tailored to the specific circumstances of a transaction or when they were presented outside the financial statements such as in the management report. ESMA concluded that certain improvements to the standards were necessary in areas such as mandatory tender offers, the definition of a business and adjustments to fair value amounts during the measurement period.

77. In its evaluation, ESMA considered that even though issuers reviewed recognised and measured goodwill in 86% of the business combinations, descriptions of the factors making up goodwill were often boilerplate and referred only to the possible realisation of synergies without providing details about the expected achievement of those synergies. A quarter of the business combinations analysed did not recognise intangible items separately from goodwill. Furthermore, ESMA noted that bargain purchases happened more frequently than the IASB originally expected.

78. Although 92% of issuers presented a summary of fair values of major assets and liabilities acquired, the aggregation of certain items of different nature limited the usefulness of the information provided. The most common intangibles recognised by issuers included in the review were customer-related and marketing-related. The review showed that valuation techniques used to determine the fair-value of those assets were based on discounted cash flow techniques.

79. ESMA noted that some issuers referred to external valuations of intangible assets without providing details of the measurement techniques used to determine their fair value. Only a third of the issuers in the sample disclosed the valuation technique but not the key assumptions. ESMA encouraged issuers to provide information on the assumptions and measurement techniques used in the valuation of material assets, liabilities and non-controlling interests. ESMA also believed that those disclosures merely referring to the use of external valuations without providing additional details do not help users in understanding the economics behind those measurements.

80. Overall, ESMA urged issuers to consider whether disclosures are sufficiently detailed and

[24] http://www.esma.europa.eu/system/files/2014-643_esma_report_on_the_ifrs_3.pdf

specific to provide an understanding of the underlying transactions. As such, presenting transaction information in one note assists users in understanding the rationale for the transactions, evaluating assets and liabilities acquired, and assessing stewardship.

81. Considering the frequency with which customer-related intangibles are recognised and the enforcement issues identified, ESMA encouraged the IASB to analyse whether customer relationships stemming from both contractual and non-contractual arrangements should be subject to the same recognition principles.

4. ESMA contribution to the European single rule book

4.1. Contribution to the accounting standard setting

4.1.1. Contribution to the European endorsement process

82. As a result of the 2013 publication of the Maystadt Report '*Should IFRS standards be more European?*'[25] mandated by the EC, the European endorsement process changed substantially. EFRAG implemented the recommendations of the report by setting up a new governance structure, enlarging the membership of the organisation and strengthening the EU's role in the international accounting standard setting process through the approval of endorsement decisions at the newly established EFRAG Board.

83. Following the submission by the 3 European Supervisory Authorities (ESAs) of a letter to the EC (ESA/2014/1)[26] voicing their intention to refrain from accepting membership in the EFRAG Board, the composition of the new EFRAG Board involves the 3 ESAs and the ECB in their capacity as observers. ESMA intensified its involvement in EFRAG by actively participating in its capacity as official observer in the newly established EFRAG Board as well as EFRAG TEG and related EFRAG working groups.

84. In 2014, ESMA provided 7 comment letters[27] to EFRAG, commenting on the draft EFRAG comment letters and other pieces of work open for consultation. ESMA also attended as an official observer EFRAG Board and EFRAG TEG meetings, where it presented its views on enforceability of standards and shared experience of national enforcers on the application of IFRS in Europe. Through this participation, ESMA contributed to the presentation of the European view to the IASB.

85. Finally, ESMA continued to actively contribute to the European endorsement process by participating as an official observer in the ARC.

4.1.2. EC consultation on the IAS Regulation

86. In November 2014, ESMA submitted its response (ESMA/2014/1344)[28] on behalf of all European securities regulators and enforcers to the EC public consultation on the evaluation of the IAS Regulation. In its answer, ESMA expressed the view that continuous commitment to

[25] http://ec.europa.eu/internal_market/accounting/docs/governance/reform/131112_report_en.pdf
[26] http://www.esma.europa.eu/system/files/esa-2014-001_esas_response_to_the_maystadt_report.pdf
[27] http://www.esma.europa.eu/page/Comment-letters
[28] http://esma.europa.eu/system/files/2014-esma-1344_annex_1_-_response_to_the_ec_public_consultation_on_the_ias_regulation.pdf

the use of IFRS was the correct approach in the context of global markets, and that the IAS Regulation significantly contributed to the global move towards IFRS and allowed the EU to take a leadership role in this respect.

87. ESMA considered that the current scope of the IAS Regulation was relevant for an adequate comparability of consolidated financial statements, as all entities listed on EU regulated markets apply the same set of accounting standards for their consolidated financial statements. ESMA considered that the IAS Regulation appropriately reflects the trade-off between promoting a set of globally accepted accounting standards and ensuring that these standards respond to EU needs.

88. ESMA recognised that the introduction of IFRS in Europe generally improved the understandability of financial statements, even though enhanced transparency was in some cases limited. Specific aspects related to certain types of transactions are complex and may be difficult to understand; therefore, users need more expertise and time to assess the information included in financial statements. Overall, the application of IFRS has improved the convergence of regulatory framework in the EU, enhanced the level-playing field between issuers who are required to apply IFRS, and increased accountability and stewardship to enable global expansion.

4.1.3. Cooperation with the IASB

89. Considering its coordinating role of the enforcement activities within the largest area using IFRS and the overall goal of setting up high quality financial reporting standards, ESMA and the IFRS Foundation signed in July 2014 joint Statement of Protocols to serve as the basis for future co-operation in areas of mutual interest. Both organisations reaffirmed the existing high level cooperation and described additional areas of co-operation, including electronic reporting, the implementation of new IFRS and other emerging financial reporting issues.

90. ESMA participates as a member in the IFRS Advisory Council, the formal advisory body to the IASB and the Trustees of the IFRS Foundation. The IFRS Advisory Council meets regularly to give its opinion on the technical agenda and project priorities.

91. An ESMA permanent working group, the IFRS Project Group, composed of IFRS experts from 12 European enforcers and ESMA staff, meets regularly to discuss major projects issued by the IASB and topics discussed by the IFRS IC. In 2014, ESMA provided 7 comment letters[29] to almost all exposure drafts and other pieces of work open for consultation by the IASB, including the IASB's Discussion Paper *Accounting for dynamic risk management: a portfolio revaluation approach to macro hedging,* the Request for information on the *Post-Implementation Review: IFRS 3 Business Combinations* and the Exposure Draft on *Measuring Quoted Investments in Subsidiaries Joint Ventures and Associates at Fair Value: proposed amendments on IFRS 10, IFRS 12, IAS 28 and IAS 36*.

92. In 2014, EECS met with IFRS IC representatives in order to discuss complex issues identified by European enforcers for which there was no specific IFRS guidance or where widely diverging interpretations appeared to exist. Among others, the following accounting subjects

[29] http://www.esma.europa.eu/page/Comment-letters

were discussed:

- calculation of goodwill in an acquisition by a partially owned subsidiary;
- enforceability issues related to IAS 12;
- control holding less than majority of shares related to IFRS 10;
- implementation issues related to IFRS 11 *Joint Arrangements*; and
- exchange of equity instruments: share-for-share exchanges.

93. In those meetings, ESMA provided an overview of the relevant practices applied by issuers in the EU and enforcers had the opportunity to provide the IFRS IC with feedback on the application of the standards and the degree of uncertainty in their interpretation.

94. While not an official observer to the IFRS IC, ESMA significantly contributed to the IFRS IC due process by submitting 14 comment letters for the discussion of some tentative agenda decisions. Some of the key issues raised were the following:

- application of IFRS 10 of investment-related services or activities (ESMA/2014/134);[30]
- application of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for the distinction between a change in an accounting policy and a change in an accounting estimate (ESMA/2014/135);[31]
- recognition of deferred tax for a single asset in a corporate wrapper in accordance with IAS 12 (ESMA/2014/602);[32] and
- application of IAS 39 *Financial Instruments: Recognition and Measurement* with the need for guidance on reporting for the exchange or modification of financial assets (when an issuer exchanges its original equity instruments for new equity instruments in the same entity by with different terms) (ESMA/2014/1211).[33]

95. An additional bilateral meeting was organised with the IASB in which ESMA provided IASB Board members with an overview of recent enforcement activities, and discussed matters in relation to enforceability of newly developed standards, implementation issues identified as part of the reviews of accounting practices undertaken by ESMA, and due process in place to develop IFRS taxonomy.

4.2. Activities in relation with the Transparency Directive

96. During the revision of the Transparency Directive, it was identified that access to regulated information (e.g. financial statements) on a pan-European basis was difficult because the national databases providing this information were insufficiently interconnected and lacked a centralised storage system.

97. In line with the amended Transparency Directive, ESMA is required to develop and submit to

[30] http://www.esma.europa.eu/system/files/2014-134_esma_letter_to_ifrs_ic_on_a_definition_of_investment_related_services_0.pdf

[31] http://www.esma.europa.eu/system/files/2014-135_esma_letter_to_ifrs_ic_on_the_distinction_between_a_change_in_an_accounting_policy_and_a_change_in_an_accounting_estimate.pdf

[32] http://www.esma.europa.eu/system/files/2014-602_-_esma_cl_on_ifrs_ic_tad_-_ias_12_-_deferred_taxes_related_to_corporate_wrapper.pdf

[33] http://esma.europa.eu/system/files/esma_2014_1211_cl_on_ifrs_ic_tad_-_ias_39_-_holders_acc_for_exchange_of_equity_instruments.pdf

the EC Regulatory Technical Standards (RTSs) setting technical requirements regarding the access to regulated information. RTSs should outline the key parameters of the European Electronic Access Point (EEAP), the search criteria, infrastructure, as well as provide the rationale for its introduction. In December 2014, ESMA published the Consultation Paper (CP) on the Draft RTSs on EEAP (ESMA/2014/1566)[34] for a three months comment period. On the basis of this consultation process and in line with the legal mandate received, ESMA expects to submit RTSs on EEAP to the EC in late 2015.

98. Furthermore, as required by the amended Transparency Directive, ESMA pursued its work for the development of draft RTSs to specify the European Single Electronic reporting Format (ESEF) for the preparation of annual financial reports in a single electronic reporting format with effect from 1 January 2020. This work is ongoing and will result in the publication of a CP including RTSs in 2015 with final standards to be submitted to the EC in 2016.

99. Considering that European enforcers found considerable diversity in the use of Alternative Performance Measures (APMs) in Europe, ESMA developed draft guidelines on APMs building on the existing 2005 CESR Recommendation and published a CP in February 2014 (ESMA/2014/175).[35] ESMA took into consideration the work performed on non-GAAP measures by other regulators as well as the International Organization of Securities Commissions (IOSCO) and ensured close cooperation with the IASB as this area is likely to be impacted by the recent amendments to IAS 1. On the basis of the feedback received, ESMA plans to issue its final report in 2015 including a feedback statement and the final guidelines.

100. In 2014, ESMA launched the Joint Transparency Task Force in order to undertake work on the clarification of some concepts related to the Transparency Directive common to both the Corporate Reporting Standing Committee and the Corporate Finance Standing Committee. Its work will mainly entail preparing common definitions and the publication of updated *Questions and answers on the Transparency Directive* expected later in 2015.

4.3. Activities in relation with audit

101. In May 2014, the amended Directive on statutory audits of annual accounts and consolidated account (Directive 2014/56/EU) and the new Regulation on specific requirements regarding statutory audit of public-interest entities (Regulation (EU) No 537/2014) were published. This legislation brought significant changes to the statutory audit directive and introduced a regulation giving ESMA responsibilities related to the technical assessment of public oversight systems of third countries and to the international cooperation between EU audit oversight authorities and third countries. ESMA will be a member without voting rights in the new Committee of the European Audit Oversight Bodies and will chair the sub-group on the technical assessment of public oversight systems of third countries and the international cooperation between Member States and third countries in this area. The legislation will be applicable from 2016 and ESMA intends to start preparatory work in 2015.

[34] http://esma.europa.eu/system/files/2014-1566_consultation_paper_on_the_draft_rts_on_the_eeap.pdf
[35] http://www.esma.europa.eu/system/files/esma-2014-175_cp_on_the_draft_guidelines_on_apms.pdf

4.4. European and international co-operation

102. With a growing number of jurisdictions adopting IFRS, ESMA maintains regular contact with other IFRS enforcers across the world with the aim of exchanging practical experience on IFRS enforcement.

103. In response to a mandate received from the EC, ESMA prepared an updated report (ESMA/2014/1278)[36] on the level of convergence of the Indian Accounting Standards (Ind-AS) towards IFRS and the quality of application and enforcement of the Ind-AS, so that the EC could provide a report to the European Council and the European Parliament on the conditions under which the GAAP of a third country can be considered equivalent to IFRS, in line with its obligations under Commission Regulation (EC) No 1569/2007.

104. In this report, ESMA identified the intention of India to converge with IFRS in a phased approach, despite the fact that the transition to Ind-AS was postponed and Ind-AS were not yet applicable at the time of the publication of the report. On the basis of the information available, ESMA highlighted several areas with respect to the progress made towards convergence. On the basis of this report, the final decision on equivalence will be taken by the EC in 2015.

[36] http://esma.europa.eu/system/files/2014-esma-1278_report_on_the_equivalence_of_indian_accounting_standards_compiled.pdf

Appendix I – Description of the enforcement process

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

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

3. Unlimited scope examination entails the evaluation of the entire content of the financial information, while focused examination refer to the evaluation of pre-defined issues in the financial information and the assessment of whether this information is compliant with the relevant financial reporting framework. However, the depth and scope of an examination procedure cannot be equated with those of an audit of financial statements.

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

   a) *require a reissuance of the financial statements* - issuance of revised financial statements which are subject to a new audit opinion;
   b) *require a corrective note* - making public either by the issuer or the enforcer a material misstatement with respect to particular item(s) included in already published financial information and the corrected information; or
   c) *require a correction in future financial statements with restatement of comparatives, where relevant* - the issuer adopts an acceptable treatment in the next accounts and corrects the prior year by restating the comparative amounts or otherwise includes additional disclosures not requiring the restatement of comparatives.

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

6. 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[37] procedure.

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

Appendix II – List of European enforcers

Member State	European Enforcer	Abbreviation
Austria	Financial Market Authority Austrian Financial Reporting Enforcement Panel	FMA AFREP
Belgium	Financial Services and Markets Authority	FSMA
Bulgaria	Financial Supervision Commission	FSC
Croatia	Croatian Financial Services Supervisory Agency Croatian National Bank Ministry of Finance -Tax Administration	HANFA HNB RHMF
Cyprus	Cyprus Securities and Exchange Commission	CySEC
Czech Republic	Czech National Bank	CNB
Denmark	Danish Financial Services Authority Danish Business Authority	Danish FSA DBA
Estonia	Estonian Financial Supervision Authority	EFSA
Finland	Finnish Financial Supervisory Authority	FIN-FSA
France	Financial Markets Authority	AMF
Germany	German Federal Financial Supervisory Authority Financial Reporting Enforcement Panel	BaFin FREP
Greece	Hellenic Capital Market Commission	HCMC
Hungary	The Central Bank of Hungary	MNB
Ireland	Central Bank of Ireland[38] Irish Auditing and Accounting Supervisory Authority	CBI IAASA
Iceland	Financial Supervisory Authority	FME
Italy	Companies and Securities National Commission	Consob
Latvia	Financial and Capital Markets Commission	FCMC
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 Instituto de Seguros de Portugal	CMVM BP ISP
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 The Nordic Growth Market Nasdaq OMX Stockholm AB[39]	Swedish FSA NGM AB Nasdaq Stockholm
United Kingdom	Financial Conduct Authority Financial Reporting Council	FCA FRC

[38] While CBI is the national administrative competent authority represented in ESMA Board of Supervisors, IAASA was designated as the sole competent authority for carrying out the obligations in the Transparency Directive.
[39] In November 2014, Nasdaq Stockholm became the new brand of Nasdaq OMX Stockholm AB