

PRESS RELEASE

ESMA sets enforcement priorities for listed companies' 2016 financial statements

The European Securities and Markets Authority (ESMA) has published its annual Public Statement on European Common Enforcement Priorities ([the Statement](#)) which identifies enforcement priorities for listed companies' 2016 financial statements and highlights the need for transparency in disclosing the potential impact of Brexit on issuers' financial statements.

The Statement, directed at listed companies and their auditors, sets out the areas ESMA and national enforcers will focus on in particular when they examine listed companies' 2016 financial statements in order to promote a consistent application of International Financial Reporting Standards (IFRS Standards) across the EU.

Both recurring issues and the current economic climate, where it may pose challenges to issuers, are included in the Statement. The common priorities for 2016 financial statements encompass:

- **Presentation of financial performance:** ESMA again stresses the importance of providing investors with clear and high quality information on financial performance. ESMA urges issuers to ensure transparency and consistency when presenting their performance in the primary financial statements, notes and in the documents accompanying financial statements.
- **Financial instruments: distinction between equity instruments and financial liabilities:** ESMA notes there are cases where the distinction between equity and liability requires significant judgement and reminds issuers that the general principle for distinguishing liabilities from equity issued by an entity is whether the entity has an unconditional right to avoid delivering cash or another financial asset to settle the contractual obligation.
- **Disclosures of the impact of the new standards on IFRS financial statements:** ESMA highlights that some aspects of the new IFRS standards, which come into force at the start of 2018 and 2019, represent a significant change to current standards. They concern Financial Instruments (IFRS 9) Revenue from Contracts with Customers (IFRS 15) and Leases (IFRS 16). These new standards may affect the recognition, measurement and presentation of assets, liabilities, income, expenses and cash flows. Consequently, issuers should start preparing for these new standards now.



In addition, taking into consideration the relevance of Brexit for some issuers in Europe, ESMA urges issuers potentially affected by the result of the UK's referendum to leave the EU to assess and disclose the associated risks and expected impacts it may have on their business activities. ESMA expects that more information about the impact will become available as the date of Brexit approaches.

Next steps

ESMA and European national enforcers will monitor and supervise the application of the IFRS requirements outlined in the Statement, with national authorities incorporating them into their reviews and taking corrective actions where appropriate. ESMA will collect data on how European listed entities have applied the priorities and ESMA will report on findings regarding these priorities in its Report on the 2016 enforcement activities.



Notes for editors

1. [2014/807 ESMA Guidelines on enforcement of financial information](#)
2. [2015/1057 ESMA Guidelines on Alternative Performance Measures](#)
3. ESMA's mission is to enhance investor protection and promote stable and orderly financial markets.

It achieves these objectives through four activities:

- a. assessing risks to investors, markets and financial stability;
 - b. completing a single rulebook for EU financial markets;
 - c. promoting supervisory convergence; and
 - d. directly supervising specific financial entities.
4. ESMA achieves its mission within the European System of Financial Supervision (ESFS) through active cooperation with the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), the European Systemic Risk Board, and with national authorities with competencies in securities markets (NCAs).

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