European Securities and Markets Authority

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PRESS RELEASE

ESMA publishes review of accounting treatment of Greek sovereign debt

The European Securities and Markets Authority (ESMA) has today published *Review of Greek Government Bonds accounting practices in the IFRS Financial Statements for the year ended 31 December 2011*, which sets out the results of the review conducted by ESMA on accounting practices and disclosures regarding exposure to Greek government bonds.

The ESMA review considered a sample of 42 European financial institutions, each with significant exposure to Greek government bonds totalling an estimated gross exposure of around €80 billion.

The review found a good level of consistency regarding the level of impairment losses, showing an improvement compared to June 2011 when there were significant variations between various financial institutions. However, the review also found that issuers fell short of meeting IFRS disclosure requirements in particular in relation to transparency of gross exposure, maturities, valuation methodologies and fair value levels used, as well as the impact of impairment on profit or loss. The review identified a lack of transparency on credit default swaps and their impact on exposure, e.g. whether issuers were buyers or sellers of these instruments. The review also highlighted a lower level of transparency regarding Greek government bonds that had been reclassified as well as exposures to Greek non-sovereign debt.

Steven Maijoor, ESMA Chair, said:

> "The review conducted by ESMA has found a good level of consistency regarding the level of impairment of Greek sovereign debt, however a significant number of issues remain to be addressed by issuers in relation to their transparency to investors.
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> "While the report only focused on the accounting treatment of Greek sovereign debt and related instruments, I would emphasise that the principles we have highlighted in relation to

disclosure and transparency are applicable more generally, and should be applied to any material exposures to financial instruments that become subject to enhanced risk.

"ESMA considers that each issuer should assess at every reporting period whether it holds any such instruments and provide disaggregated and expanded disclosures about these instruments to explain the nature and extent of risk. This will contribute to the protection of investors and stable and well-functioning markets."

Next steps

On the basis of the findings of this review and as a result of market developments, ESMA will focus on:

- The application of IFRS specific and general requirements related to financial instruments and associated risks on the subjects mentioned above;
- Improving transparency of disclosures related to sovereign exposures. ESMA will pay attention to the quality of country-by-country disclosures, and more generally to the granularity of information provided on significant sovereign exposures;
- Improving the disclosures related to non-sovereign exposures by type of exposures (corporate, banks, municipalities, etc.) and to provide qualitative and quantitative information on the credit risk; and
- Monitoring further developments related to financial instruments accounting and in particular for sovereign debt in the 2012 IFRS financial statements. This covers, among other things, the accounting treatment of the Greek PSI exchange that occurred in 2012.

ESMA will discuss the detailed outcome of the review with the national securities markets regulators, who it expects will take or have already taken appropriate enforcement actions in case of infringements and will actively monitor the progress of those actions.

Notes for editors

1. *ESMA/2012/482 ESMA Report - Review of Greek Government Bonds accounting practices in the IFRS Financial Statements for the year ended 31 December 2011.*

2. *ESMA/2011/397 Public Statement - Sovereign Debt in IFRS Financial Statements 25 November 2011*.

3. *ESMA/2011/226 Public Statement - ESMA Statement on disclosures related to sovereign debt to be included in IFRS financial statements 28 July 2011*

4. Institutions by type – 21 banks, 5 insurers, 16 combined banking and insurance activities.

5. The report published today is based on the activities of the European Enforcers Co-ordination Sessions (EECS) which operates under the oversight of the Corporate Reporting Standing Committee of ESMA. The main objective of the EECS is to co-ordinate the enforcement activities of Member States in order to increase convergence amongst European enforcer's activities which should contribute to fostering investor confidence. Currently, 38 organisations from 29 countries are represented in the EECS.

6. ESMA is an independent EU Authority that was established on 1 January 2011 and works closely with the other European Supervisory Authorities responsible for banking (EBA), and insurance and occupational pensions (EIOPA), and the European Systemic Risk Board (ESRB).

7. ESMA's mission is to enhance the protection of investors and promote stable and well-functioning financial markets in the European Union (EU). As an independent institution, ESMA achieves this aim by building a single rule book for EU financial markets and ensuring its consistent application across the EU. ESMA contributes to the regulation of financial services firms with a pan-European reach, either through direct supervision or through the active co-ordination of national supervisory activity.

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