Report

Enforcement and Regulatory Activities of Accounting Enforcers in 2017

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Abbreviations and acronyms used in this report

APMs	Alternative Performance Measures
ARC	Accounting Regulatory Committee
CWG	Consultative Working Group
CEAOB	Committee of European Auditing Oversight Bodies
EBA	European Banking Authority
EC	European Commission
ECEP	European Common Enforcement Priorities
EEA	European Economic Area
EECS	European Enforcers Coordination Sessions
EFI Guidelines	Guidelines on the Enforcement of Financial Information
EFRAG	European Financial Reporting Advisory Group
EFRAG TEG	European Financial Reporting Advisory Group Technical Expert Group
EPS	Earnings per Share
ESEF	European Single Electronic Format
ESMA	European Securities and Markets Authority
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
IOSCO	International Organization of Securities Commissions
iXBRL	Inline Extensible Business Reporting Language
MS	Member State
NCA	National Competent Authority
NCI	Non Controlling Interest
OCI	Other Comprehensive Income
PIR	Post Implementation Review
PDF	Portable Document Format
P&L	Profit and Loss
Q&A	Questions and Answers
RTS	Regulatory Technical Standards
SSM	Single Supervisory Mechanism
US SEC	United States Securities and Exchange Commission
XBRL	Extensible Business Reporting Language
XHTML	Extensible Hypertext Markup Language

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.
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.

Executive Summary

This 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), hereafter 'European enforcers', when examining compliance of financial information under IFRS provided by issuers in 2017. It also provides an overview of 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 rulebook in the area of corporate reporting.

Supervisory Convergence

Peer Review on ESMA Guidelines on Enforcement of Financial Information (EFI Guidelines)

ESMA and European enforcers continue to be committed to further strengthening supervisory convergence and sharing best practices in the area of enforcement of financial information. For this purpose, in 2017 ESMA carried out a Peer Review on selected aspects of application of the EFI Guidelines whose findings and recommendations were published in July 2017.

Enforcement of financial information in 2017

As in the past 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) - 41 emerging issues, 78 decisions, and a number of roundtables and thematic reviews.

European enforcers examined the interim and/or annual financial statements of 1,141 issuers representing an average examination rate of 19% of all IFRS issuers with securities listed on regulated markets. This represents a broadly stable level of activity compared to last year. The number of ex-ante examinations, which often require more resources from European enforcers, increased compared to previous years (136 in 2017 compared to 111 in 2016).

Ex-post examinations resulted in actions being taken towards 328 issuers in order to address material departures from IFRS. This represents in absolute numbers an increase of 6%, compared to 2016. The action rate (issuers subject to action per ex-post examination) also rose from 27% in 2016 to 32% in 2017. The main deficiencies were identified in the areas of financial statements presentation, impairment of non-financial assets and accounting for financial instruments.

In 2017, ESMA and European enforcers evaluated for a sample of 204 issuers the level of compliance with IFRS in the areas identified as common enforcement priorities for the 2016 annual financial statements. This assessment resulted in 76 enforcement actions being taken against 56 issuers, related to the enforcement priorities assessed, namely (1) presentation of financial statements, (2) distinction between equity instruments and financial liabilities and (3) transitional disclosures of the expected impact of IFRS 9 *Financial Instruments* in the financial statements of non-financial institutions.

European Common Enforcement Priorities

As in previous years, ESMA together with European enforcers identified, and will include in its supervisory practices, a set of common enforcement priorities for European issuers' 2017 IFRS financial statements. The 2017 priorities focus on (1) the disclosures related to the expected impact of the new standards (IFRS 9 and IFRS 15 *Revenue from Contracts with Customers*); (2) IFRS 3 *Business Combinations*; (3) Specific issues of IAS 7 *Statement of Cash Flows*. In the public statement announcing the enforcement priorities, ESMA and European enforcers furthermore note that other issues such as the presentation of financial performance, the disclosures on the impact of Brexit and the disclosure of non-financial information and APMs will also be assessed.

ESMA also published a fact-finding exercise on disclosure of the impact of the new accounting standards (IFRS 9 and IFRS 15) in the 2016 annual and 2017 interim IFRS financial statements with the objective of assessing the level of transparency and effectiveness of disclosure on the impact of the implementation of the new standards.

Finally, in order to contribute to the IASB's Post Implementation Review (PIR) on IFRS 13 *Fair Value Measurements*, in 2017 ESMA issued a thematic study on IFRS 13 based on the experience of European enforcers and on the results of a desktop review of a sample of 78 issuers.

Single Rule Book

ESMA actively participated in the accounting standards-setting process by providing European enforcers' positions on all major new standards issued by the International Accounting Standards Board (IASB) as well as by contributing to the discussions in the EFRAG Board and the Technical Expert Group (EFRAG TEG).

Most notably, ESMA provided specific input on the IASB's exposure draft on Prepayment Features with Negative Compensation (Proposed amendments to IFRS 9) on Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts, and to the IASB's discussion paper Principles of Disclosure.

Based on its mandate under the revised Transparency Directive, ESMA finalised in 2017 its work on the European Single Electronic Format (ESEF) and submitted its draft Regulatory Technical Standard (RTS) to the European Commission for endorsement. The Final Report, which included, amongst others, the RTS and the Report on the Field Tests was published on 18 December 2017. To facilitate implementation of ESEF and to inform the market, several other materials were also published, including most notably the ESEF Reporting Manual containing further guidance for issuers and software companies, and the XBRL files produced in the course of the Field Test.

Work programme for 2018

ESMA published on 7 February 2018 its Supervisory Convergence Work Programme 2018, which covers, among other topics, the activities of accounting enforcers. In addition to the regular activities, especially related to the coordination of the European enforcers' work to ensure compliance of issuers' financial statements with IFRS, ESMA envisages supervisory convergence work in the area of narrative reporting (the management report in general and non-financial information in particular, including APMs) and of electronic reporting (ESEF).

Finally, ESMA and European enforcers will step up their efforts in promoting common supervisory approaches and enforcement practices on the new standards IFRS 9 and IFRS 15, will contribute to the European endorsement process of the new insurance standard IFRS 17 *Insurance Contracts* and to the consultations from IASB on major proposed modifications to the standards.

2 Introduction

1. This report provides an overview of the activities related to the supervision and enforcement of financial information carried out during 2017 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.

2. Furthermore, it also addresses developments related to ESMA's regulatory role regarding the contribution to the development of the single rulebook in financial reporting such as the process of the European system of endorsement of IFRS, interaction with the IASB and activities resulting from the mandate given to ESMA in the amended Transparency Directive.

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

3 Supervisory convergence activities

4. The promotion of harmonisation of enforcement activities related to IFRS has been an important area of activity in the last years for the European regulators. The activities performed by ESMA and the European enforcers in the area of supervisory convergence in 2017 are described in detail in this chapter and are followed by an overview of the next steps that ESMA envisages in the area of corporate reporting in accordance with ESMA's Strategic Orientation 2016-2020. Appendix I provides a description of the main features of the European enforcement system on financial reporting with specific references and explanations to the Guidelines on Enforcement.

3.1. Assessment of compliance with 2016 Enforcement Priorities

5. An important activity 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 the annual financial statements. ESMA has published European Common Enforcement Priorities (ECEP) every year since 2012 and is confident that announcing those priorities before the finalisation of annual financial statements helps to prevent misstatements and contributes to increasing the consistency and quality of financial reporting in Europe.

6. European enforcers considered the Public Statement on the 2016 European Common

2 Iceland and Norway

Enforcement Priorities[3] (hereafter, ECEP statement) during the examination process of 2016 annual IFRS financial statements. In order to assess how they had been addressed, ESMA and accounting enforcers analysed a sample of 204 issuers from 28 EEA countries selected for examination by European enforcers. When selecting the issuers, European enforcers did not use a randomised probability sampling method but selected issuers for which the enforcement priorities were of particular importance. Therefore, it is not possible to extrapolate the results from the assessment to the general population of issuers.

7. The ECEP 2016 covered (i) presentation of financial statements (IAS 1), (ii) distinction between financial liabilities and equity (IAS 32) and (iii) transitional disclosure for IFRS 9 for non-financial companies. Furthermore, transitional disclosures for IFRS 9 for credit institutions and IFRS 15 were analysed in the course of a separate fact-finding exercise and its results published in October 2017[4].

3.1.2. Presentation of financial performance and financial position

8. ESMA included in its 2016 ECEP statement, and European enforcers assessed, whether issuers have provided sufficiently good quality disclosures, in particular in relation to financial performance and financial position, and whether the presentation of the financial statements reviewed followed the principles included in IFRS. Indeed ESMA believes that increasing the communication effectiveness of financial statements and in particular, performance, is one of the priorities of the following years. The IASB[5] also identified this as an area of focus.

9. As shown in the following graphics, the sample examined to assess the presentation of financial performance and financial position consisted of 170 issuers from diverse sectors and with a range of market capitalisations. The category “Other” includes multiple sectors not covered in the other categories, such as Conglomerates and Utilities.

3 Public Statement, European common enforcement priorities for 2016 financial Statements, 28 October 2016, ESMA, Paris, ESMA-2016-1528

4 Summary of Findings, Results of the fact-finding exercise on disclosure of the impact of the new accounting standards in the 2016 annual and 2017 interim IFRS financial statements, 27 October 2017, ESMA, Paris, ESMA32-63-364

5 Speech: Hans Hoogervorst, International Accounting Standards Board, Better communication, 30 June 2016

Figure 1: Issuers examined per sector of activity

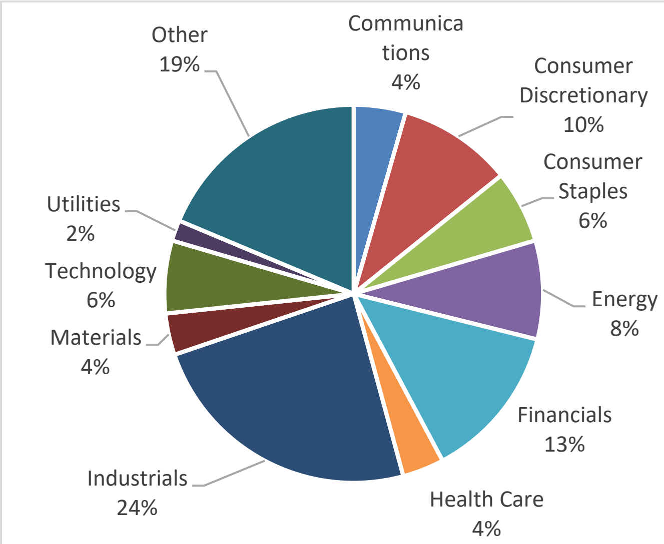
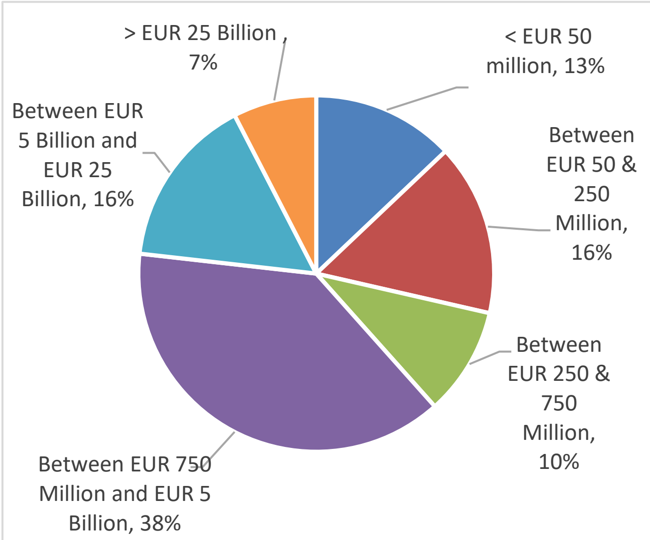


Figure 2: Market capitalisation of issuers examined at 31.12.2016 in EUR (mil)



Line Items, Headings and Subtotals

10. Overall, in the sample analysed, European enforcers could identify a high level of compliance with the requirements of IAS 1 when it comes to line Items, headings and subtotals as recommended by ESMA in its 2016 ECEP statement.

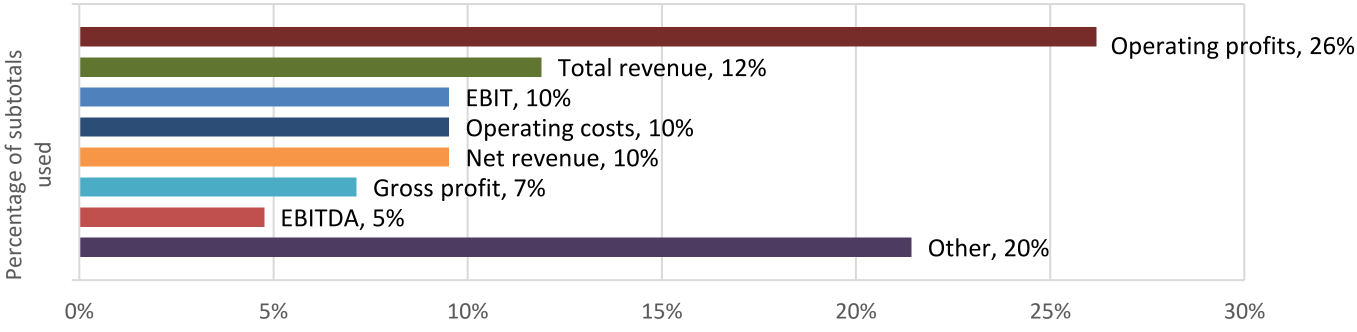
11. In the statement of profit or loss and other comprehensive income, issuers used additional line items, headings and subtotals to a high extent: over 70% of issuers presented additional line items and headings over and above the requirements in IAS 1 paragraph 82. Moreover, more than 90% of the issuers analysed in the sample presented subtotals, the large majority using from 1 to 5 subtotals. Eleven percent presented more than 5 subtotals; of these, 35% belonged to the financial industry.

12. ESMA welcomes the fact that almost all subtotals (97%) analysed were comprised of line items made up of amounts recognised and measured in accordance with IFRS. In one case, the enforcer took an action as an issuer presented income from operating leases in two separate line items, one being rental income and another being interest income.

13. Only in two out of 159 cases, the labelling of subtotals was identified to be misleading. In both these cases, the concerned enforcer took action. However, wide diversity existed in the type of subtotals used and their labels. European enforcers noted that most of the subtotals fell under the categories showed in the graph below:

Figure 3. Subtotals used by issuers in the sample analysed. The graph indicates the number of issuers

using variations of each accounting concept (i.e. 26 of issuers used "operating profit" or a slight variation of such a label")



14. The lack of defined sub-totals in IAS 1 results in a number of different ones being used. Indeed, issuers use a variety of labels to encapsulate variations of similar accounting concepts. For example, apart from "EBIT", European issuers also used a wide range of other labels more or less related to "operating profits", including amongst others variants such as: Operating results; Operating results before other incomes and expenses; Operating profit before joint ventures, specific items and other separately disclosed items; Operating earnings/income; Results of operating activities; Net operating income; Recurring operating activities; Underlying operating profit/ Adjusted operating profit.

15. Similarly, other than "EBITDA", European issuers also used subtotals such as: Profit before taxation and amortisation of acquisition intangibles; Profit before tax, adjusted for restructuring and acquisition related costs; Profit before allowances on loan losses, provisions and income tax.

16. ESMA and European enforcers believe that further guidance from the IASB on the definitions of some subtotals (such as operating profits and EBITDA) with its consequent labelling would be desirable to address diversity in practice and to improve comparability of financial statements. In this respect, ESMA welcomes the IASB's initiative to improve the presentation of the primary financial statements by determining how to strike a balance between the need to provide enough room for flexibility in entity-specific reporting of performance measures and, at the same time, allowing comparable information.

17. In accordance with paragraph 99 of IAS 1, concerning the expenses in the statement of profit or loss and other comprehensive income, while 44% of the issuers presented an analysis by function, 49% presented an analysis by nature. All except one issuer who chose a presentation by function disclosed additional information on the nature of the expenses (e.g. depreciation of assets, employee benefit expenses) in the Notes as required following paragraph 104 of IAS 1.

18. The large majority (more than 90%) of issuers analysed did not exclude items of operating nature from the subtotal labelled as 'operating activities' or 'operating results'. However, in two cases, enforcers took actions because of misleading exclusion of operating items from subtotal relating to operating activities. In one such case, for

example, EBIT before non-recurring items excluded impairment charges and restructuring costs.

19. Moreover, in 29 cases (22%), issuers labelled subtotals as non-recurring, exceptional, unusual or infrequent. ESMA reminds issuers that it is not acceptable to label subtotals or line items as 'exceptional' (IAS 1 paragraph 87). Furthermore, items that affected past periods and/or are expected to affect future periods can rarely be labelled or presented as non-recurring items such as most of the restructurings costs or impairment losses. Enforcers took nine actions in this respect.

20. Only half of the issuers who did use such labels disclosed the judgements made in the accounting policies about this classification. ESMA and European enforcers strongly encourage issuers to disclose where significant judgement is required in the presentation of material items whenever the IFRS are not clear in the classification or the presentation of items and subtotals in the statement of profit or loss and other comprehensive income.

21. Also in the statement of financial position, issuers heavily used additional line items and subtotals. Seventy-three percent of the issuers analysed presented additional line items over and above the requirements of IAS 1 paragraph 54, ranging from common ones such as goodwill or tax payables/receivables, to more sector-specific ones, such as for example "debt security"/ "equity instruments", "broadcasting rights" or "aircraft parts and installations on leased aircraft". Furthermore, 47% presented additional subtotals, the vast majority being total current and non-current assets / liabilities.

22. The quasi totality of issuers complied with requirements of IAS 1 when it comes to consistency from period to period in their use of subtotals in the statement of financial position, in accordance with IAS 1 paragraph 45 and did not display them with more prominence than subtotals and totals required in IFRS for the statement of financial position. European enforcers assessed that all line items and subtotals in statement of financial position were (individually) relevant to an understanding of the issuer's financial position.

23. As ESMA and European enforcers had highlighted in the 2016 ECEP, all but one issuer presented subtotals consistent from period to period, as required by IAS 1 paragraph 45. In the one case in which this did not happen, the enforcer took an action. Furthermore, the European enforcers deemed the subtotals presented by the issuers to be presented in an unbiased fashion and they generally were not displayed with more prominence than subtotals and totals required in IFRS. While ESMA welcomes these extremely high levels of compliance with IAS 1 requirements, it also notes that enforcers dispose of very few measures and very little guidance from the IFRS to analyse and, if necessary, to enforce non-compliance issues in this area.

<u>Segment information</u>

24. About 24% of issuers did not or only partially provided entity-wide disclosures as required by paragraphs 32 to 34 of IFRS 8 and reconciliations of the total of segments revenues, reported segment profit or loss, segment assets and other material segment

items. Consequently, enforcers took in five cases enforcement actions to address these disclosure deficiencies.

25. Moreover, 36% of issuers did not disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8. ESMA reminds issuers that disclosure of the judgements made is required by paragraph 22(aa) of IFRS 8 as of 2017 accounts.

26. ESMA noted that the overwhelming majority of issuers (91%) fulfilled the requirement of paragraphs 21(c) and 28 of IFRS 8 to provide reconciliations of segment revenue, reported segment profit or loss, segment assets and other material segment items.

Reclassifications of items from OCI to P&L

27. Issuers who reclassified items from OCI to Profit or Loss (P&L) did so in a variety of ways and provided a mixed level of transparency on the reclassification. For example, amounts reclassified from foreign currency translation adjustments related to sale or loss of control of foreign operations, were mainly reclassified outside the results of operating activities (43%) or were not visible in the financial statements, neither in the P&L nor in the notes (39%). Furthermore, around 18% of issuers reclassified in the results of operating activities or elsewhere. Also for the reclassification of items related to cash-flow hedges, a diversity of approaches were used. In a large part of the financial statements it was not visible how they were reclassified (47%), or they were presented inside or outside the results of operating activities depending on the underlying transaction (27%).

28. The diversity in practice may be explained by the lack of guidance in IFRS and thus the flexibility provided in IAS 1. In this respect, ESMA believes that until the IASB addresses this issue and brings clarity on the accounting treatment to be followed, issuers should disclose the accounting policy used and judgements made in order to improve the comparability and transparency across different reporting periods and between entities. Notably, it should be disclosed why certain reclassifications were made and how they affect the operating results.

29. Nevertheless, 88% of the issuers for which accumulated OCI was material for a specific item provided detailed information about those items. At the same time, enforcers took two enforcement actions to address lacking disclosures in this area.

Earnings per share (EPS)

30. ESMA's 2016 ECEP drew issuers' attention to the calculation of EPS. The quasi-totality of issuers in the sample (96%) disclosed the earnings per shares and details on the calculation of EPS. Enforcers took two actions because of missing disclosures.

31. Around 16% of issuers disclosed, in addition to basic and diluted earnings per share, amounts per share using a reported component of the statement of comprehensive income other than required by IAS 33. More than half of these issuers (54%) presented such ratios in the notes rather than on the face of the statement of other comprehensive

income in accordance with paragraph 73 and 73A of IAS 33. All issuers presented reconciliations of such ratios or their components to the line items reported in the statement of comprehensive income on the notes.

ESMA Guidelines on APMs

32. The ESMA Guidelines on APMs set out principles regarding the presentation of performance measures outside financial statements, such as the labelling, calculation, presentation and comparability. Around 75% of the issuers in the sample make use of APMs outside the financial statements, which shows that APMs are widely used and are an important tool to communicate the financial situation or performance.

33. While ESMA acknowledges that there has been an enhancement of disclosures related to APMs outside financial statements, ESMA notes that there is still room for further improvement and reminds issuers that they have to make every effort to comply with the Guidelines. European enforcers observed for instance that 15 % of issuers did not provide definitions of APMs used and 6% did not use appropriate labels. In addition, 20% of issuers did not provide reconciliations of the APMs used to the most directly reconcilable line item, subtotal or total presented in the financial statements as required in the APM Guidelines and 10% displayed APMs with more prominence than figures stemming from the financial statements. Consequently, European enforcers took 35 enforcement actions related to the use of APMs which means that there were enforcement actions in more than 20% of all examinations in the sample.

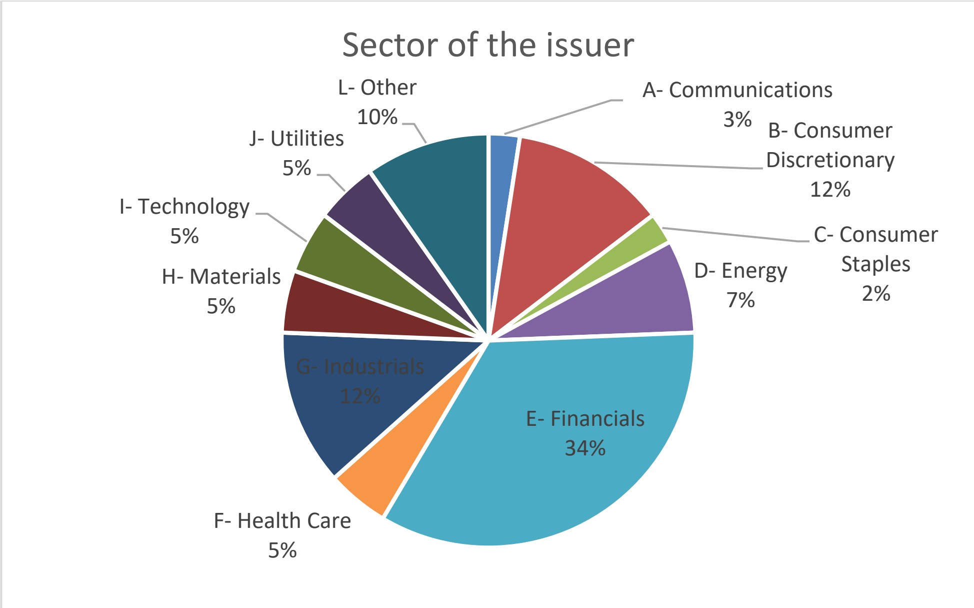
Enforcement actions

34. Following the examinations of 170 Annual Financial Rreports, for which the "Presentation of financial performance and financial position" priority was assessed, European enforcers took enforcement actions against 52 issuers overall. From these, enforcers took action the following number of times on each different aspect analysed:

	Number of actions requiring correction in future financial statements with restatement of comparatives	Number of actions requiring the publication of a corrective note
Presentation of financial statements	15	
Segment information	9	
Movements in OCI	2	
EPS	9	
Other requirements	2	
Application of the APM Guidelines	33	2

3.1.3. Financial instruments: distinction between equity instruments and financial liabilities

35. European enforcers reviewed compliance in the area of distinction between equity instruments and financial liabilities for 44 issuers who issued instruments for which the distinction between a financial liability and equity instruments was considered relevant and material. The sectorial distribution of the issuers analysed is presented in the chart below.



36. European enforcers analysed a variety of instruments such as instruments where settlement options were included in the contractual conditions, puttable instruments, compound instruments or other complex instruments. The analysis carried out revealed that where significant analysis was required in the classification of financial instruments either as a financial liability or as equity instrument, approximately 40% of issuers did not disclose the accounting policy and the analysis made in their classification.

37. Moreover, the key characteristics of the instruments were not always provided. In particular, in case of contractual features giving rise to economic compulsion (e.g. a dividend blocker, interest step-up feature etc), less than half of the issuers for whom the issue was relevant disclosed sufficient information on such contractual features as recommended by the 2016 ECEP statement.

38. In case scenarios where there is no clear guidance (e.g. because particular debt / equity issues have been rejected by the IFRS IC due to lack of guidance or clarity in IAS 32), less than a quarter of the concerned issuers disclosed the accounting policy with regards to a debt / equity distinction with a reference to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. ESMA would like to remind issuers that whenever such a situation arises, the accounting policy applied should be selected and used consistently for similar transactions in accordance with paragraph 13 of IAS 8.

Disclosure of the accounting policy and the judgements made by management is required according to paragraph 117 (b) and 122 of IAS 1 respectively.

39. European enforcers assessed that a quarter of issuers in the sample did not provide enough transparency on the main characteristics of such instruments or only provided boilerplate information. In particular, in these cases enforcers highlight the scope for improvement when it comes to conversions dates, terms for call / put options and triggering events for payments. ESMA reiterates its calls for transparency in the disclosure of fundamental characteristics of these instruments, without which investors might not be in the position to evaluate the nature and risks of the instruments issued.

40. In case of issuance of financial instruments containing both a liability and an equity component, including an additional embedded derivative (e.g. callable or puttable convertible debt), almost all issuers disclosed contractual features of such instruments with multiple embedded derivatives.

41. ESMA notes that three quarters of issuers presented additional line items in the statement of financial position/in the statement of other comprehensive income or in the statement of changes in equity related to financial instruments with characteristics of equity. Seventy percent provided additional transparency on the issue by disaggregating all related flows in the statement of cash flows and/or stating in the notes to the financial statements the distribution to holders of instruments classified as equity (in addition to dividends on ordinary shares). ESMA would like to highlight the importance of such additional disclosure, which allow readers to identify key items effectively.

42. As part of these examinations, European enforcers have specifically examined classification and disclosure of 73 issued instruments. The table below provides an overview of the issues examined:

Type of the issue	Number of issues examined
General classification issues (IAS 32.15-16)	13
Non existence of a substantive contractual obligation to deliver cash or another financial asset (IAS 32.17-20)	15
Settlement in the entity's own equity instruments (IAS 32.21-24)	11
Contingent settlement provisions (IAS32.25)	8
Settlement options in the contractual conditions (IAS 32.26-27)	2
Compound instrument (IAS 32.28-32)	21
Other issues related to classification, including issues related to economic compulsion	3
Total number of issued instruments examined	**73**

43. For seven of the instruments analysed, enforcers did not agree with the classification of the instrument by the issuer. The main issues of disagreement related to (i) the classification of the instruments which despite the lack of contractual obligation to pay interest and redeem the principal amount were classified as a liability, (ii) classification of issued instruments as equity instruments despite a contingent settlement

provision(s) effectively requiring classification as a financial liability and (iii) lack of recognition of derivative financial liabilities resulting from options over own equity instruments and from share repurchase obligations.

44. ESMA and European enforcers are disappointed to see such limited disclosures and call for enhanced transparency on the characteristics of such instruments and the judgments made on the distinction between equity instruments and financial liabilities for the instruments where significant judgement is required for such classification.

Enforcement actions

45. Enforcement actions on the classification of instruments as a financial instrument or equity and on their measurement were taken against three issuers, whilst five cases are still ongoing. Furthermore, European enforcers identified lack of disclosure of essential information on the instrument, such as interest clauses, triggering events for payment, which were essential for classification of the instrument.

3.1.4. Disclosures of the impact of the new standards on IFRS financial statements

Fact-finding exercise on IFRS 9 and IFRS 15

46. In order to provide timely feedback to the market, ESMA together with European enforcers carried out a fact-finding exercise, whose results were published in October 2017, to evaluate the transparency and effectiveness of disclosures on the impact of the implementation of IFRS 9 and IFRS 15. The focus was on credit institutions with regards to disclosures related to the implementation and expected transition impact of IFRS 9, and on non-financial issuers mainly in construction, telecommunication, software industries as well as in utilities and industrial companies in relation to disclosure of implementation and expected impacts of IFRS 15.

47. The data gathered in the fact-finding exercise showed that only a limited proportion of issuers provided both qualitative and quantitative disclosures on the expected impact of the new standards and that the quality of disclosures varied significantly. ESMA highlighted that while this might reflect differences in degree of progress in implementation of the standards and resulting lack of confidence in the precision of the information available, it might also indicate a low level of transparency on implementation and expected impact shortly before IFRS 9 and IFRS 15 are to be applied, notably in the interim financial statements.

48. Against this backdrop, ESMA highlighted the importance of providing entity-specific information on the impact of the new standards in light of the requirements of IAS 8 and drew attention to the expectations already articulated in ESMA's two 2016 public statements relating to IFRS 15[6] and IFRS 9[7] respectively. Indeed, ESMA called upon

6 Public Statement, Issues for consideration in implementing IFRS 15: Revenue from Contracts with Customers, ESMA, Paris, ESMA/2016/1148, published on 20 July 2016

7 Public Statement, Issues for consideration in implementing IFRS 9: Financial Instruments, ESMA, Paris, ESMA/2016/1563, published on 10 November 2016

issuers to provide users of financial statements with sufficient information to understand the impact that the future application of the new standards will have on the financial position and performance of the entity.

Review of disclosures of the impact of IFRS 9 for non-financial institutions

49. European enforcers furthermore reviewed disclosures of the impact of IFRS 9 for non-financial institutions. ESMA notes that out of the 53 issuers analysed for which the issue was relevant (taken from the main sample already discussed for IAS 1 and IAS 32 above), none was planning to early adopt IFRS 9. Furthermore, only a very small part of the sample provided any information on strategy of communication of IFRS 9 changes / impact on the investors.

50. ESMA notes that half of issuers in the sample provided no information or only boilerplate and non-specific information on the impact of IFRS 9 on the issuers' financial statements. Hardly any of the issuers in the sample provided quantitative disclosures of the expected effect of IFRS 9 implementation. Issuers also tended not to provide any indication as to when the quantitative information will be available. However, ESMA highlights that around 50% of the issuers provided qualitative information enabling users to understand the magnitude of the expected impact on the financial position in the financial statements.

51. ESMA notes that 15% of issuers provided qualitative disclosures disaggregated by appropriate risk drivers or IFRS 9 phases, whilst another quarter of the sample provided information disaggregated in a different way. ESMA and European enforcers highlight that only approximately 40% of relevant issuers in the sample provided information on the adoption of new hedge accounting model.

52. ESMA reiterates the importance of providing entity-specific information on the impact of the new standards in light of the requirements of IAS 8 and the expectations articulated by ESMA in the 2016 public statement[8] on IFRS 9 and in its 2017 fact finding exercise. ESMA highlighted once more in its 2017 ECEP statement[9] the need for adequate disclosure and sufficient transparency for the upcoming application of the new standards. Furthermore, ESMA highlights that IAS 8 paragraph 30 requires a *reasonable* estimate of the impact and doubts that issuers are always striking the right balance between the level of reliability of the data provided and the need for transparency. In the context of the application of the new standards as of 1st January 2018, ESMA urges issuers to reinforce and speed-up their implementation efforts so that improved disclosure can be provided in the 2017 annual financial statements and IFRS 9 can be implemented and applied properly in 2018 financial statements.

Enforcement actions

53. European enforcers only took one enforcement action on information provided in the financial statements on the effects of IFRS 9.

8 Public Statement: Issues for consideration in implementing IFRS 9 Financial instruments, ESMA, 10 November 2016

9 Public Statement: European Common Enforcement Priorities for 2017 year-end, ESMA, 27 October 2017

3.1.5. Conclusion on 2016 ECEP

54. Overall, enforcement actions were taken against 27% of the 204 issuers in the sample used for the assessment of how ECEP were addressed. The figures reported in the summary table below reflect the fact that often several enforcement actions are taken against the same issuer covering several areas of the same set of IFRS financial statements. Consequently, although the number of actions taken per accounting area was high, these were generally focused on a smaller number of issuers in the sample.

Table 1: Enforcement actions on the sample of issuers in the ECEP[10]

	Main sample of issuers		Issuers selected out of the main sample	
Type of enforcement action	**Presentation of Financial Performance and Position**	**Financial Instruments: equity / liability distinction**	**IFRS 9 non financials**	**Tot. number of enforcement actions**
Reissuance of financial statements	0	**0**	0	0
Public corrective notes	2	1	0	3
Corrections in future financial statements	70	2	1	73
Total number of enforcement actions	**72**	**3**	**1**	**76**
Total number of issuers against whom enforcement action took place	**52**	**3**	**1**	**56**
Sample size	170	44	53	204[11]
Sample action rate	31%	7%	2%	27%

3.2. European Common Enforcement Priorities for 2017 Financial Statements

55. As in previous years, ESMA and European enforcers agreed on ECEP in advance of the preparation, audit and publication of the 2017 annual IFRS financial statements. The 2017 ECEP statement[12] contains the financial reporting topics that were identified as particularly important for European issuers on the basis of, on the one hand, recurrent enforcement issues encountered by European enforcers and discussed in EECS and, on the other hand, the expected significant changes that the new IFRS standards will bring. When selecting the topics, ESMA took into account the result of

11 As enforcement examinations 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.

12 Public Statement, European common enforcement priorities for 2017 financial statements, 27 October 2017, ESMA, Paris, ESMA32-63-340

the examinations of financial statements performed in 2017 and consulted with the Consultative Working Group (CWG) of the Corporate Reporting Standing Committee.

56. The 2017 priorities focus on:

   a) Disclosure of the expected impact of implementation of major new standards in the period of their initial application (IFRS 9, IFRS 15 and IFRS 16);

   b) Specific recognition, measurement and disclosure issues of IFRS 3;

   c) Specific issues relating to IAS 7 such as reconciliation of liabilities arising from financing activities.

57. ESMA and the European enforcers also urge issuers to continue to provide disclosures on their exposure to risks arising from the UK's decision to leave the EU and its expected impact. Furthermore, ESMA highlighted the importance of the requirements with regards to the disclosure of non-financial information and, as in the 2016 ECEP, drew attention to the APM Guidelines.

58. 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 the 2017 year-end IFRS financial statements and will report the findings in the 2018 Report on Enforcement and Regulatory Activities of Accounting Enforcers.

3.3. Coordination of enforcement decisions

59. In 2017, 41 emerging issues were discussed at the EECS. In addition to that, European enforcers submitted 78 decisions to the EECS database, 47 of which were discussed. This represents a decrease compared to last year, when 50 emerging issues and 85 decisions were submitted. Furthermore other topics were presented and discussed in a number of roundtables and thematic reviews. The discussions and the conclusions reached by European enforcers at EECS are intended to improve the level of consistent application and enforcement of IFRS, subject to the specific facts and circumstances of the transactions discussed. ESMA presents below some examples of discussions held at EECS. However, these 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 found.

Implementation issues related to IFRS 9 and IFRS 15

60. European enforcers discussed a number of transition implementation issues related to IFRS 9 and IFRS 15.

61. Concerning IFRS 9, EECS discussed amongst other issues, the impact of the recent amendments to IFRS 9 Prepayment Features with Negative Compensation with the mandatory application date of 1 January 2019. EECS discussed, in particular, the explanation in paragraphs BC4.252-BC4.253 of IFRS 9 related to the modification or

exchange of a financial liability that does not result in a de-recognition added by the amendments. EECS highlighted that the IASB Board concluded that the existing "*requirements in IFRS 9 provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in de-recognition and, consequently no further standard setting activity is required*". Therefore, EECS concluded that the requirements of IFRS 9 related to modification or exchange of a financial liability[13] need to be applied in their entirety as of 1st January 2018 as the abovementioned amendments do not modify these requirements.

62. EECS also discussed whether on transition to IFRS 9, issuers can revisit their conclusions reached under IAS 39 whether a modification or exchange of a financial liability results in de-recognition. EECS concluded that IFRS 9 did not modify the criteria when a modification or exchange of a financial liability results in de-recognition (cf. paragraphs 40 and AG 62 of IAS 39 compared with paragraphs 3.3.2 and B.3.3.6 of IFRS 9). As the requirements of IFRS did not change in this respect, whether a modification or an exchange of a financial liability results in its de-recognition depends on the assessment as to whether the terms of the original and the new instrument are substantially different, which is an objective assessment. Consequently, ESMA concluded that it is unlikely that such assessment is revisited solely because of the transition to IFRS 9. Finally, consistently with the IFRIC Update from September 2012[14], EECS highlighted that ESMA and European enforcers expect issuers to consider both quantitative and qualitative impacts of the transaction in assessing whether the terms or the instruments are substantially different.

63. With regards to IFRS 15, EECS discussed whether issuers applying IFRS 15 using the modified retrospective method in line with IFRS 15 paragraph C3(b) need to provide the disclosures required by IFRS 15 paragraph C8 in the first interim financial statements prepared using IFRS 15. EECS noted that, when requiring these additional disclosures, paragraph C8 refers to reporting periods that include the date of initial application. EECS concluded that essential comparative information would be missing if the issuer was not to disclose in the interim financial statements information on how revenue would have changed had IAS 11 *Construction Contracts* and IAS 18 *Revenue* still been applied. Consequently, to the extent that the last annual financial statements were prepared using a different method to measure and recognise revenue, ESMA expects that issuers using the modified retrospective method will provide disclosures required paragraph C8 of IFRS 15 in all interim periods that include the date of initial application of IFRS 15.

Consolidation methods (IFRS 10 Consolidated Financial Statements)

64. ESMA and European enforcers discussed several issues related to consolidation methods and procedures. EECS discussed for instance whether the recognition of non-controlling interests must entail the existence of a third party or whether, for instance, a reserve fund could under some circumstance be considered a non-controlling interest

13 Please see ESMA's 2017 ECEP page 6 in relation to the requirements in IFRS 9 related to the accounting for a modification of a financial liability that does not result in de-recognition.

14 Agenda Decision, IAS 39 - De-recognition of financial instruments upon modification, IFRIC Update, September 2012

(NCI). EECS concluded that a third party is indeed a prerequisite for the recognition of a NCI. Issuers are reminded that due to the restrictions that characterise it, a reserve fund cannot be considered a third party.

65. EECS further discussed situations in which a parent company would be required to prepare consolidated financial statements for all its subsidiaries in accordance with IFRS 10 paragraph 4 but it is not required by its national law to prepare, and does not prepare, consolidated financial statements. ESMA notes that the requirements to establish whether an entity shall prepare consolidated financial statements depend on local transposition of the Accounting Directive (2013/34/EU), article 22 and 23, i.e. on national law; however once the consolidated financial statements need to be prepared in accordance with IFRS, the scope of consolidation is defined by IFRS 10.

Classification of liabilities as current or not current (IAS 1)

66. ESMA and European enforcers discussed several issues linked to the classification of liabilities as current or non-current. Several issues revolved around the interpretation of the requirements of IAS 1 paragraph 69(d), which states that a loan is classified as non-current when a borrower has the right to defer settlement for at least 12 months beyond the reporting date.

67. Issuers are reminded that in case of breach of covenant the focus of the classification are the legal rights of the entity at the reporting date rather than the intentions or expectations of either of the parties to the loan. ESMA highlights that, unless the borrower has the right to unilaterally defer settlement for at least 12 months, a liability should be classified as current.

68. EECS also discussed the application of paragraph 75 of IAS 1 according to which the entity should continue to classify the liability as non-current "if the lender agreed by the end of the reporting period to provide a period of grace ending at least 12 months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment". ESMA highlights that should the grace period not end at least 12-months after the reporting date, the financial debt should be classified as current liability in accordance with IAS 1.75.

Accounting for operations with hyperinflationary countries

69. In light of the specific economic environment in Venezuela, EECS discussed the issue of how to reflect the results of Venezuelan operations in the IFRS consolidated financial statements. ESMA and European enforcers noted that the lack of reliable information on exchange rates as well as lack of correlation between the exchange rate and the usually used price index has caused for some issuers clear distortions, artificially increasing the weight of investments in Venezuela over the whole business of the entity. EECS noted that paragraph 17 of IAS 29 *Financial Reporting in Hyperinflationary Economies* allows calculating the general price index indirectly through movements in the exchange rate. Considering this, EECS opined that given the exceptional circumstances of Venezuelan hyperinflation, it might be acceptable to use an estimated

exchange rate calculated by reflecting the development of the general price index[15].

70. ESMA would like to highlight the exceptionality of the Venezuelan situation and reiterate that this accounting treatment shall only be used in such exceptional circumstances. Furthermore, the methodology used to estimate the exchange rate should be technically robust (i.e. a market practice or benchmark) and the issuer should disclose the main judgements and assumptions used on its application.

Other significant discussions held at EECS

71. Amongst other significant topics debated by EECS in 2017, ESMA highlights discussions regarding the application of IAS 12 *Income Taxes* with respect to the expected consequences of the outcome of the UK withdrawal process on the entity's applicable income tax regime.

72. European enforcers also discussed IAS 1 requirements to disclose information on capital in IFRS consolidated financial statements of financial institutions. A review of current market practice showed that there is diversity in how both banks and insurance-led groups apply the requirements in paragraphs 134-136 of IAS 1, relating not only to the content of the disclosures, but also to the placement of such disclosures and the level of assurance provided by auditors.

73. Furthermore, a number of issues were debated relating to the application of the amendment to IAS 38 *Intangible Assets*. EECS discussed for instance the rebuttable presumption that an amortisation method based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate except in limited circumstances. EECS agreed that, in relation to the amortisation of intangible assets such as films and television programmes, if there is a high correlation between the economic benefits and the revenues received, the amortisation method based on revenues continues to be appropriate in accordance with paragraph 98A(b) of IAS 38.

3.4. ESMA enforcement database

74. In order to facilitate the sharing of enforcement decisions and experiences, in 2005 ESMA established an internal database to which European enforcers submit the decisions that they have taken as part of their national enforcement processes. In accordance with the EFI Guidelines, European enforcers should submit their emerging issues and enforcement decisions if these meet any of the submission criteria therein defined. European enforcers should consult the database before taking significant enforcement decisions and take into account the outcome of the discussions in EECS on similar issues.

75. As of 31 December 2017, the EECS database includes 1043 decisions and 468 emerging issues and thus constitutes a rich source of knowledge. ESMA regularly publishes enforcement decisions to inform market participants which accounting

15 This accounting treatment however is not expressly included either in IAS 29 nor IAS 21- *The Effects of Changes in Foreign Exchange Rates*

treatments European enforcers may or may not consider as complying with IFRS. In 2017 ESMA published one extract from the EECS database[16] containing 12 enforcement decisions. ESMA is confident that these extracts are helpful and contribute to the consistent application of IFRS. As the decisions published in these extracts are based on the IFRS requirements valid at the time of preparation of the respective IFRS financial statements, some of them may by now be superseded but most of the decisions are still relevant. ESMA plans to continue publishing enforcement decisions on an annual or semi-annual basis. Published decisions are also included in the database of the International Organization of Securities Commissions (IOSCO).

3.5. Main indicators of the IFRS enforcement activity at national level

76. 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 European enforcers. At the European level, slightly less than 6,000 issuers of securities admitted to trading on regulated markets[17] prepare IFRS financial statements, among which 5,173 prepare consolidated IFRS financial statements and 783 prepare only non-consolidated IFRS financial statements. Furthermore, 110 issuers prepare consolidated financial statements under third country GAAP deemed equivalent to IFRS (mainly US-GAAP).

Table 2: Number of issuers examined

	Number of issuers examined			
	Unlimited scope	**Focused**	**Total 2017**	**Total 2016**
Ex-post examinations	***615***	***390***	***1,005***	**1,147**
- Annual IFRS financial statements	583	325	908	939
- Interim IFRS financial statements	32	65	97	208
Ex-ante examinations	***71***	***65***	***136***	**111**
Total number of issuers preparing IFRS financial statements examined	***686***	***455***	***1,141***	**1,258**
Ex-post examinations of financial statements prepared using third country GAAP deemed equivalent to IFRS	*1*	*2*	*3*	5

77. In 2017, European enforcers performed 686 unlimited scope examinations[18] of the financial statements of IFRS issuers[19], covering financial statements of around 12% of listed IFRS issuers in Europe (14% in 2016). In addition, the financial statements of 455 IFRS issuers were subject to focused examination, representing a coverage of

16 Report, 21st Extract from the EECS's Database of Enforcement, 31 October 2017, ESMA, Paris, ESMA32-63-334

17 This number and subsequent analysis do not include the IFRS financial statements of entities not issuing securities admitted to trading on regulated markets that are required to prepare IFRS financial statements on the basis of options in the IAS Regulation.

18 Definitions of unlimited scope examination and focused examinations are included in Appendix I to this report.

19 Each issuer is only counted once; in the case where both annual and interim financial statements were examined, only annual financial statements count.

around 7% of the listed IFRS issuers (7% in 2016). Altogether, in 2017, the financial statements of 19% (21% in 2016) of the entities listed on European regulated markets preparing financial statements according to IFRS were subject to examination by European enforcers.

78. In 2017, 1,005 IFRS issuers were subject to ex-post examinations, which represents a slight decrease in relation to the previous year (1,147 in 2016). On the other hand, the number of ex-ante examinations, which often require more resources from European enforcers in the control of compliance of all relevant documents (e.g. financial information included in prospectuses), has increased to 136 (111 in 2016).

79. ESMA also provides information by clusters of countries reflecting the size of the respective capital markets. The clusters have been determined based on the number of issuers listed on regulated markets in each jurisdiction preparing financial statements in accordance with IFRS.

Table 3: Number of IFRS issuers per country

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

80. The following table summarises the actions and examinations undertaken by enforcers in relation to IFRS issuers during 2017 and divides countries in clusters by the number of issuers.

Table 4: Number of examinations and actions for IFRS issuers in 2017

	Number of issuers per cluster	Issuers subject to unlimited scope examinations	Unlimited scope examination rate	Total number of issuers subject to examinations	Examination rate[20]	Total number of issuers subject to ex-post examinations	Total number of issuers for which actions were taken	Sample action rate[21]
Countries with 1-99 issuers	724	105	15%	165	23%	145	42	29%
Countries with 100-249 issuers	1581	222	14%	403	25%	319	100	31%
Countries with 250-450 issuers	1808	204	11%	330	18%	315	70	22%
Countries with >450 issuers	1843	155	8%	243	13%	226	116	51%

20 Number of issuers examined divided by total number of issuers.

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

Total 2017	**5956**	**686**	**12%**	**1141**	**19%**	**1005**	**328**	**32%**
Total 2016	*5,961*	*812*	*14%*	*1,178*	*21%*	*1,147*	*311*	*27%*
Total 2015	*6,283*	*844*	*13%*	*1,228*	*20%*	*1,098*	*273*	*25%*

81. In around 32% of the ex-post examinations performed during 2017, European enforcers have taken enforcement actions, a higher rate than in the previous year (2016: 27%).

82. 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 because of the complexity, 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.

83. ESMA performed an analysis of the type of actions taken by European enforcers during 2017. An enforcement action related to a single issuer might have identified multiple areas of concern. In around 25% of the actions taken, European enforcers requested immediate information of the market by the issuance of corrective notes or by reissuance of financial statements whereas in around 75% of the cases European enforcers considered corrections in future financial statements to be sufficient.

Table 5: Number of IFRS issuers for which actions were taken[22]

	Annual IFRS Financial statements	Interim IFRS Financial state-ments	Total	Thereof: actions relating to disclosures
Require a reissuance of the financial statements	9	3	12	1
Require a public corrective note	65	6	71	21
Require a correction in fu-ture financial statements	239	6	245	125
Total 2017	**313**	**15**	**328**	**147**
Total 2016	***256***	***55***	***311***	***158***
Total 2015	***236***	***37***	***273***	***n.a***

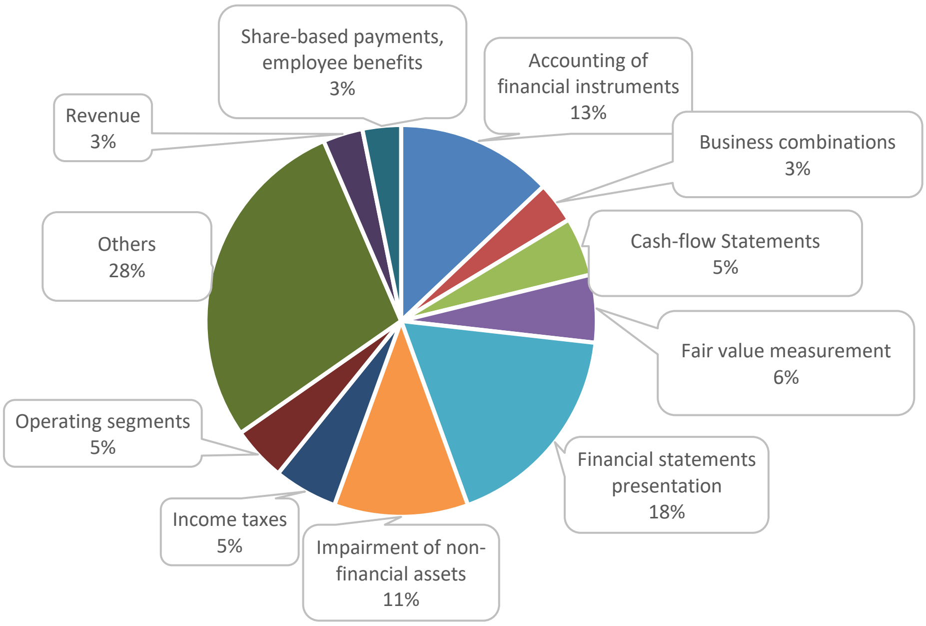
84. When deciding to require a correction in future financial statements (rather than an action leading to information provided immediately to the market), enforcers consider the timing of the decision (e.g. the next financial statements' publication time), its nature and the surrounding circumstances, such as the assessment whether the market is sufficiently informed at the moment the decision is taken. In half of the cases in which

22 If an enforcer took two enforcement actions on the same issuer (e.g. a corrective note and a correction in future F/S) it is included only the most severe action

the enforcer required to correct an infringement in future financial statements, the action related to disclosures only. This is a significantly higher percentage than for reissuances of the financial statements or corrective notes, where only 27% of the actions relate to disclosure issues.

85. Figure 7 presents an overview of the accounting topics in which enforcers have taken actions in 2017:

Figure 7: Areas addressed by enforcement actions taken in 2017



86. ESMA notes that the areas where most infringements were identified by European enforcers remained consistent when compared with 2016 and 2015. Actions of significant importance related to: (1) financial statements presentation, (2) accounting for financial instruments and (3) impairment of non-financial assets. These three areas represent 42% of all the issues addressed by enforcement actions taken by European enforcers in 2017.

87. It is also interesting to notice that the share of actions European enforcers took in these three areas, compared to all actions taken by them in 2017, remained broadly stable compared to last year. Thirteen percent of the actions taken related to the accounting for financial instruments (14% in 2016); 18% to the financial statements presentation (17% in 2016); 11% to impairments of non-financial assets and (again 11% in 2016).

3.6. Post Implementation Review on IFRS 13

88. In order to contribute to the IASB's Post Implementation Review (PIR) on IFRS 13, ESMA issued in 2017 a thematic study on IFRS 13[23], based on the experience of European enforcers and on the results of a desktop review of a sample of issuers.

[23] Report, Review of Fair Value Measurement in the IFRS financial statements, ESMA, Paris, published on 12 July 2017, ESMA 32-67-284

89. For this purpose, a temporary task force assessed the level of compliance, consistency and comparability of financial statements of European issuers with respect to the application of IFRS 13. Based on the evidence gathered in the course of the study, ESMA found that the requirements of the Standard have generally been well incorporated in the financial statements of the issuers in the sample. However, there is still room for further improvement in the level of compliance and comparability in the application of the IFRS 13 requirements.

90. In addition, IFRS 13 can be improved to bring more clarity in areas where uncertainty in practice still exists. Specifically, ESMA recommends the IASB to expand the scope of IFRS 13 to require disclosures on the non-recurring fair value measurements occurring at initial recognition, such as those relating to IFRS 3, and to provide additional guidance and clarification on the requirements relating to the applicable adjustments when measuring the fair value of quoted investments.

91. Finally, ESMA has recommended to the IASB to provide further examples which could be helpful to explain what additional analysis issuers need to perform in order to conclude that a decrease in the volume or level of market activity indicates that a transaction or quoted price does not represent fair value or that a transaction is not orderly. ESMA expects issuers and their auditors to consider the findings of this review when preparing and auditing the financial statements and NCAs to take appropriate enforcement actions whenever material misstatements are identified. ESMA and NCAs will monitor the progress in these regards

3.7. Peer Review on the Guidelines on Enforcement

92. In 2017, ESMA conducted and made public the results a peer review[24] which focused on some of the Guidelines on Enforcement. Guideline 2 (effectiveness of the enforcement and financial and human resources), Guideline 5 (selection methods) and Guideline 6 (examination procedures). Furthermore, the peer review provided an assessment of the effectiveness and degree of convergence in the enforcement of the provisions under review as well as an assessment of the application of law and supervisory practices, and the extent to which the practices in existence achieve the objectives of the Guidelines.

93. The Peer Review was carried out on the basis of a questionnaire to all NCAs and on-site visits to seven jurisdictions (Germany, Italy, Malta, Norway, Portugal, Romania, and the United Kingdom).

94. While ESMA acknowledges the high level of convergence in the supervision and enforcement of individual enforcement cases, the report identified that further improvements and convergence is needed in relation to:

- the selection model for issuers to be examined;
- the supervisory practices and procedures related to the examination of financial statements (e.g. depth of inquiries into financial statements going beyond improved

24 Peer Review Report, Peer Review on Guidelines on Enforcement of financial information, ESMA , Paris, published on 18 July 2017 ESMA 42-111-4138

disclosure);
- the financial and human resources allocated by NCAs to the enforcement of financial information.

95. The Report also made a number of recommendations where NCAs and/or ESMA should consider further action, including, among others, on the selection model and type of examinations used. In 2018, ESMA will follow up on these recommendations.

3.8. Q&As on Alternative Performance Measures (APMs)

96. The APM Guidelines, which define APMs and set out principles to be followed by issuers and persons responsible for the prospectus when they include these measures in prospectuses or in regulated information documents, became mandatorily applicable in July 2016. In order to ensure supervisory convergence of enforcers' practices and ensure an adequate implementation of the Guidelines by issuers, ESMA monitored the application of the Guidelines and gathered the most frequent issues raised from the application and supervision.

97. Where ESMA believed that more guidance was needed, ESMA published frequently asked questions and answers (Q&A) on the APM Guidelines both in January and in October 2017[25.] These Q&As do not set additional requirements for issuers but rather further explain the principles included in the APM Guidelines and how they interact with each other. In 2018, ESMA will continue to monitor closely the application of the Guidelines and consider further steps if necessary.

3.9. Other supervisory convergence activities

98. To ensure that there is no duplication or absence of supervision, ESMA prepares since Q1 2016 a consolidated list of issuers, including a methodological framework giving guidance on how and when NCAs may cooperate with each other and contact issuers for the identification and disclosure of their home Member State. Identification of the home Member State is a key element to ensure that every issuer whose securities are admitted to trading on an EU regulated market falls under the supervision of one and only one NCA. During the course of the year 2017, ESMA continued to collect information from NCAs, provided guidance to address the incoherence identified and organized trainings for NCA staff.

3.10. Work Programme for 2018

99. In the coming year, ESMA will continue pursuing its regular activities in the area of corporate reporting in order to ensure that financial information published by issuers complies with IFRS and contributes to the transparency of information relevant to the decision making process of investors. These activities include preparing the 2018

25 Questions and answers: ESMA Guidelines on Alternative Performance Measures (APMs), ESMA32-51-370

ECEP as well as the coordination of emerging issues and decisions. Please find the detailed steps that ESMA plans to take in this respect in ESMA's Supervisory Convergence Work Programme for 2018[26], pages 26 and 27.

4 Single rule book

4.1. Contribution to accounting standard setting

4.1.1. Contribution to the European endorsement process

100. ESMA continued to be actively involved in EFRAG's work by participating as official observer in the activities of EFRAG's Board, EFRAG's Technical Expert Group and the EFRAG working groups, where ESMA presented its views on enforceability of standards and shared the experience of European enforcers on the application of IFRS in Europe. Furthermore, ESMA continued to contribute actively to the European endorsement process by participating as an official observer in the Accounting Regulatory Committee.

101. In 2017, ESMA published a total of 9 letters providing feedback on the EFRAG's draft comment letters addressing exposure drafts and discussion papers issued by the IASB. Amongst those, most notably, ESMA commented on the IASB's Discussion Paper Principles of Disclosure and on the IASB's Exposure Draft on Prepayment Features with Negative Compensation (Proposed amendments to IFRS 9). Regarding the latter, ESMA is closely following the on-time endorsement to enable issuers to early apply.

102. In addition, as part of the joint work with the other ESAs, ESMA Chair also co-signed with EIOPA's and EBA's respective Chairs a letter expressing concerns with respect to the vote of the Accounting Regulatory Committee in favour of enlarging the scope of the option to defer the application of IFRS 9 to any insurance companies within financial conglomerates27.

4.1.2. Cooperation with the IASB

103. Further to the signature in 2016 of the updated Statement of Protocols between ESMA and the IFRS Foundation to deepen the cooperation of the two organisations, in 2017 ESMA continued to participate as a member in the IFRS Advisory Council28. Through this involvement, ESMA gives its opinion on the technical agenda, project priorities and strategic direction as well as serving as a sounding board.

104. In addition, an ESMA permanent working group composed of IFRS experts from 13 different European enforcers together with ESMA staff, met regularly to discuss major accounting projects. In 2017, ESMA submitted nine letters to the IASB providing

26 Supervisory Convergence Work Programme 2018, ESMA, Paris 07 February 2018, ESMA42-114-540

27 Letter, Follow-up to the vote at the ARC on IFRS 9, ESAs Chairs, sent on 24 July 2017, ESAs 2017 29

28 The IFRS Advisory Council is the formal advisory body to the Board and Trustees of the IFRS Foundation.

feedback on Exposure Drafts and Discussion Papers issued.

105. Furthermore, EECS met twice with representatives of IASB and IFRS IC 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, accounting subjects such as the presentation of revenue in the Income Statement, application issues related to cash and cash equivalents, IFRS 2 grant date and IFRS 3 paragraph B55 were discussed.

106. Finally, while not an official observer to the IFRS IC, ESMA contributed to the IFRS IC due process by submitting three comment letters on tentative agenda decisions, and providing input to the European Commission, which is an observer of the IFRS IC. Furthermore, an issue on the interpretation of IAS 37[29] was identified and submitted to the IFRS IC (Voluntary tax payments related to uncertain tax positions) as an agenda item request.

107. One additional bilateral meeting of ESMA and IASB representatives was held in which ESMA provided IASB Board members and staff with an overview of recent enforcement activities and discussed matters in relation to enforceability of the standards. Furthermore, other important topics were also discussed, such as the implementation issues identified as part of the reviews of accounting practices undertaken by ESMA, the disclosures related to the application of the new standards IFRS 9 and 15, and the promotion of consistent application of IFRS throughout Europe.

4.2. Activities related to the amended Transparency Directive

108. The amended Transparency Directive requires ESMA to develop and submit to the European Commission Regulatory Technical Standards (RTS) setting out technical requirements specifying the European Single Electronic Reporting Format (ESEF) for the preparation of annual financial reports. To this end, ESMA carried out extensive market consultations and ran field tests. The field tests were conducted in the summer of 2017 and saw the participation of 25 volunteer issuers. Their purpose was to assess whether the considered technical specifications are practicable and suitable.

109. On 18 December 2017, ESMA published the Final Report on the RTS on the ESEF, which included the RTS and the Field Test Report. To facilitate implementation of ESEF and to inform the market, several other materials were also published, including most notably the ESEF Reporting Manual, which contains further guidance for issuers and software companies. Furthermore, ESMA published the Inline XBRL reports that were created in the course of the field tests.

110. The RTS proposes that starting 2020, all annual financial reports shall be prepared in the Extensible Hyper Text Markup Language (XHTML) format. A document in XHTML format is consumable by standard web browsers without need of specialised tools and can be prepared and displayed by the issuer as intended. Where annual financial reports contain consolidated financial statements drawn up in accordance with

29 Agenda Item Request: Voluntary Tax payments related to uncertain tax positions , sent on 19 December 2017, ESMA, Paris

IFRS, the issuer shall label the information contained therein using Extensible Business Reporting Language (XBRL)30. Through the marking-up with XBRL, information can be processed by software for analysis and thus becomes machine readable and 'structured'. The issuers shall embed the XBRL data directly into the XHTML documents through a format known as Inline XBRL. The IFRS Taxonomy, issued by the IFRS Foundation, specifically developed to mark-up IFRS disclosures in a structured electronic format, is the basis for the ESEF.

111. ESMA expects the RTS to be endorsed by the European Commission and then submitted to the European Council and the European Parliament in the course of 2018.

4.3. Activities related to the Audit Regulation

112. In 2017, ESMA has actively participated as a member, without voting rights, in the Committee of the European Audit Oversight Bodies (CEAOB) contributing by providing the securities regulator perspective. ESMA has contributed to the running of the CEAOB sub-groups and in particular the one chaired by ESMA on equivalence assessments of public oversight systems of third countries and facilitating the international cooperation between Member States and third countries in this area. In 2017, this sub-group focused on the analysis of the impact of the new audit regulatory framework on the equivalence and adequacy assessment methodology and on the definition of precise assessment criteria. Furthermore, it launched the dialogue with the audit oversight authorities of some third-countries for the equivalence and adequacy assessment. Such work is expected to progress further in 2018. For more Information, please refer to the CEAOB Annual report.

113. ESMA, through its Audit Working Group, has been also monitoring developments in the auditing area. In particular, ESMA has contributed with a comment letter to the International Auditing and Assurance Standard Board's (IAASB) project on ISA 540 audit accounting estimates.

4.4. International cooperation

114. 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.

115. As part of the common objectives of promoting high quality and consistent application of financial reporting standards and avoiding conflicting regulatory decisions on the application of both IFRS and US GAAP, ESMA and the United States Securities and Exchange Commission (US SEC) cooperate and have regular dialogue since 2006. Areas of common interest or concern are the application of converged accounting standards, enforcement related issues, electronic reporting, accounting areas of concern in relation to foreign private issuers (such as, for example, the 2017

30 In the first two years, only the primary financial statements would be required to be tagged

US tax reform) and other matters related to issuers or market behaviour.

4.5. Work Programme for 2018

116. In accordance with ESMA's Work Programme for 2018 in the area of single rulebook, in the coming year ESMA will continue to actively contribute to the accounting standard setting and endorsement in the EU through its observership at the EFRAG Supervisory Board and Technical Expert Group and its relationship with the IASB. Where relevant, ESMA will continue to provide feedback to EFRAG and IASB on their respective pronouncements; in 2018, ESMA will closely monitor and contribute to the endorsement process of the new accounting standards on insurance, IFRS 17 Insurance Contracts and the major projects expected from the IASB.

117. In the audit area, ESMA will continue providing its views on relevant International Standards on Auditing and continue to coordinate the work in relation to the recognition of equivalence and adequacy decision for third countries by participating in the CEAOB.

118. Furthermore, ESMA plans to proactively engage with external stakeholders and NCAs in the coming year to ensure a consistent and effective application and enforcement of the ESEF in Europe.

Appendix I – Description of the enforcement process

1. 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.

1 Guidelines on enforcement of financial information

2. On the basis of Article 16 of ESMA Regulation, in 2014, ESMA published the EFI Guidelines (ESMA/2014/1293). These became effective from 29 December 2014 and aim at strengthening the 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.[31]

3. Compliance with the EFI 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 published a compliance table on its website (ESMA32-67-142)[32] which identifies 22 countries, which comply, three countries that intend to comply by a particular date and five countries which do not comply and do not intend to comply with part of the EFI Guidelines because of conflicts with existing national legislation or lack of resources.

4. The EFI 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 ECEP and including requirements for coordination of views on accounting matters prior to taking significant enforcement decisions at national level.

5. The scope of enforcement of financial information of companies that issued securities admitted to trading on the regulated markets, as defined under the Transparency Directive, covers all reporting frameworks applicable to listed issuers. This includes IFRS as endorsed by the EU for consolidated financial statements, IFRS as endorsed by the EU or national 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 for ESMA are in relation to issues derived from the requirements of the Transparency Directive in relation to the application of the IAS Regulation.

6. ESMA activities on supervisory convergence of enforcement are carried out mainly through the EECS, a forum of 41 European enforcers from 30 EEA Member States who

31 List of European enforcers is included in Appendix II.

32 Guidelines compliance table – Guidelines on the enforcement of financial information, 21 April, ESMA, Paris, ESMA32-67-142

have responsibilities in the area of supervision and enforcement of financial information. With responsibility for co-ordination of supervision of approximately 6,000 issuers listed on European regulated markets preparing IFRS financial statements, EECS currently constitutes the largest regional enforcers' network with supervision responsibilities for IFRS.

7. According to Guideline 10, through EECS, European enforcers discuss and share their experience on the application and enforcement of IFRS. In particular, they discuss enforcement cases, which fulfil the submission criterion, set out in the EFI Guidelines before or after decisions are taken in order to promote a consistent approach in the application of IFRS.

8. ESMA has a coordination role to facilitate analysis and discussion of enforcement issues regarding IFRS financial statements in the European Enforcers' Coordination Sessions. EECS discussions 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. When time constraints do not allow waiting until the next EECS physical meeting (eight meetings took place in 2017) to discuss an emerging issue, they can be discussed in ad-hoc conference calls or through written procedure. When taking an enforcement decision, European enforcers should take into account the outcome of previous discussions in EECS. 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.

9. 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 changes in those practices.

10. Because 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.

2 Key definitions and Concepts

11. 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.

12. 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 use either unlimited scope examination or a combination of unlimited scope and focused examinations of financial information of issuers selected for enforcement.

13. 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.

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

- Require a reissuance of the financial statements - issuance of revised financial statements which are subject to a new audit opinion;

- 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

- Require 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.

15. When deciding between the type of action to be applied, 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, nature of the decision and the surrounding circumstances.

16. 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[33].

33 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[34] 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 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 Nordic Growth Market NGM AB Nasdaq Stockholm AB	Swedish FSA NGM AB Nasdaq Stockholm
United Kingdom	Financial Conduct Authority Financial Reporting Council	FCA FRC

34 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.

Appendix III: Number of IFRS issuers per country

Country	Consolidated IFRS-Financial statements			Non-consolidated IFRS-Financial statements	TOTAL
	Equity issuers	Bonds and securitised debt issuers	Other securities issuers		
Austria	65	42	0	0	107
Belgium	115	3	0	0	118
Bulgaria	106	20	0	229	355
Croatia	78	7	0	55	140
Cyprus	66	1	0	20	87
Czech Republic	23	10	1	28	62
Denmark	118	22	0	15	155
Estonia	17	2	1	1	21
Finland	127	20	0	0	147
France	489	31	0	8	528
Germany	417	26	0	5	448
Greece	153	2	0	39	194
Hungary	31	6	0	11	48
Iceland	16	33	0	16	65
Ireland	31	7	2	57	97
Italy	225	4	5	15	249
Latvia	10	10	0	7	27
Lithuania	24	1	0	5	30
Luxembourg	43	18	4	77	142
Malta	26	22	0	17	65
Netherlands	141	14	0	30	185
Norway	177	46	0	28	251
Poland	356	0	0	45	401
Portugal	47	12	0	7	66
Romania	39	3	0	50	92
Slovakia	13	6	0	8	27
Slovenia	29	8	0	0	37
Spain	141	3	0	0	144
Sweden	318	20	5	10	353
UK	1,073	241	1	0	1,315
Total	**4,514**	**640**	**19**	**783**	**5,956**