

# Regulation

## ESMA enforcement priorities for 2016

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Mark Vaessen  
Partner  
KPMG International

### European regulator highlights priorities for 2016 IFRS financial statements

#### Highlights

- Priorities for national securities regulators
- Disclosures on impact of new standards
- Other key areas of focus include performance presentation and debt/equity classification
- Previous years' enforcement priorities remain relevant

#### Priorities for national regulators

The European regulator, ESMA, has issued a [statement](#) highlighting the common areas that European national securities regulators will be focusing on when reviewing listed companies' 2016 IFRS financial statements. Not surprisingly, disclosures of the impact of the new standards are one of its three key priorities.

***In just over a year, the new financial instruments and revenue standards will become effective. ESMA expects issuers to provide relevant information about the impact of these new standards.***

Although the topics included in the statement are those deemed to be most relevant at a European level, regulatory bodies outside Europe are also likely to pay particular attention to many of the same topics. These topics are not exhaustive, however, and national regulators may have additional areas of focus.

#### Disclosures on impact of new standards

For 2016 IFRS financial statements, ESMA expects relevant disclosures on the possible impacts of the new standards – IFRS 9 *Financial Instruments*, IFRS 15 *Revenue From Contracts with Customers* and IFRS 16 *Leases*.

Back in July, ESMA outlined its expectations<sup>1</sup> for disclosures on the implementation of IFRS 15 in both 2016 and 2017 financial statements. Its expectations for IFRS 9 are likely to be similar. With the effective dates of these new standards fast approaching, ESMA is also urging companies to push their implementation projects forward.

1. [Issues for consideration in implementing IFRS 15 Revenue from Contracts with Customers.](#)

## Key areas of focus

In addition to disclosures on the impact of the new standards, ESMA has identified the presentation of financial performance and the distinction between equity instruments and financial liabilities as key focus areas.

In particular, it is calling for companies to present performance transparently and consistently in their financial statements and other accompanying documents.

ESMA also reminds companies that its [Guidelines on APMs](#) and the requirements set out in the [amendments to IAS 1 Presentation of Financial Statements](#) will apply.

Topics	Specific points to consider
Presentation of financial performance	<ul style="list-style-type: none"> <li>– Presentation of APMs in the financial statements or accompanying documents in a transparent and unbiased way</li> <li>– Compliance with the newly effective amendments to IAS 1</li> <li>– Segment identification and disclosure of judgements applied in segment aggregation</li> <li>– Presentation of movements in other comprehensive income (OCI)</li> <li>– Presentation of EPS and related disclosures</li> </ul>
Distinction between equity instruments and financial liabilities	<ul style="list-style-type: none"> <li>– Reminder of the general principle in IAS 32 <i>Financial Instruments: Presentation</i> on the distinction between liability and equity</li> <li>– Consistent application and disclosure of accounting policies</li> <li>– Transparent disclosure of judgements and characteristics of instruments</li> <li>– Presentation of additional line items – if material in the statement of financial position or in the statement of OCI – and disaggregation of all related cash flows in the statement of cash flows</li> </ul>
Disclosures on the impact of new standards	<ul style="list-style-type: none"> <li>– Disclosures about expected impacts as soon as they are known, or reasonably estimable</li> <li>– Qualitative information if quantitative information is not yet available</li> <li>– Certain IAS 17 <i>Leases</i> disclosures are even more relevant as they may assist users in understanding the impact of IFRS 16</li> </ul>

For those companies potentially affected by [Brexit](#), ESMA is also encouraging disclosure of the associated risks, and the expected impacts and uncertainties on their business activities.

## Previous years' priorities remain relevant

Listed companies and their auditors should continue to pay attention to the enforcement priorities published by ESMA in previous years, which remain relevant. They should also continue to follow ESMA's key principles for [improving the quality of disclosures](#), published in October 2015.

The [2015](#) and [2014](#) priorities covered areas such as the impact of financial market conditions on financial statements, statement of cash flows, fair value measurement, consolidated financial statements and joint arrangements, deferred tax assets and related disclosures.