

ESMA publishes 2019 report on enforcement of corporate disclosure

Convergence work on financial and non-financial disclosure

In 2019 European enforcers examined around 950 financial statements drawn up under IFRS, covering approximately 17% of issuers listed on EU regulated markets. This led to enforcement actions against 299 issuers in order to address material departures from IFRS, representing an action rate of 33%. Throughout the year, ESMA's efforts to increase supervisory convergence focused on harmonising the enforcement of the application of the new accounting standards IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*, in line with the announcement in the 2018 European common enforcement priorities.

Steven Maijoor, Chair of ESMA, said:

"A harmonised European approach to the application of IFRS is key to ensuring that investors receive high quality and relevant financial information. In 2019, ESMA and European enforcers focused on the new accounting standards to ensure a convergent application and this effort will continue in 2020.

"Investors are also increasingly demanding reliable and relevant disclosure on ESG factors. Examinations of non-financial statements during 2019 show that further efforts are needed from European issuers. Together with national enforcers, ESMA will continue its focus on this area to ensure that investors are provided with high-quality ESG information.

"To support this work ESMA is ready to assist the European Commission, as part of its review of the Non-Financial Reporting Directive, to ensure that appropriate standards for non-financial reporting are established."

In light of the increased importance of companies' ESG disclosures, European enforcers increased their enforcement activities on non-financial information in 2019, leading to examinations of 937 non-financial statements or 35% of the total estimated number of issuers required to publish a non-financial statement – a significant rise compared to the 819 examinations undertaken in 2018. These examinations brought about 95 enforcement actions, constituting an action rate of 10%.

In addition to the reviews of financial and non-financial statements, European enforcers examined 712 management reports during 2019 to assess whether the presentation and disclosure of alternative performance measures (APMs) were in compliance with ESMA's Guidelines on APMs, covering 13% of IFRS issuers listed on EU regulated markets. These examinations led to enforcement actions against 109 issuers, representing an action rate of 15%.

Next steps

In 2020, ESMA and European enforcers will focus on issues related to the

application of IFRS 16 *Leases*, IAS 12 *Income Taxes* as well as IFRS 9 *Financial Instruments* for credit institutions and IFRS 15 *Revenue from Contracts with Customers*. On non-financial statements, the key areas of focus will be certain general aspects, such as the double materiality lens, and more specific topics, for example environmental and climate-change disclosures and disclosure of key performance indicators (KPIs). ESMA will also undertake other activities to promote supervisory convergence, such as leading discussions among enforcers regarding implementation of the ESEF Regulation.

Finally, ESMA will continue to contribute to the development of high quality accounting standards, including by reviewing accounting practices related to IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interest in Other Entities* to provide input to the IASB's post-implementation review of these standards.