

Regulation

ESMA enforcement priorities for 2015

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European authority highlights priorities for 2015 IFRS financial statements

Highlights

- ESMA communicates its enforcement priorities for European national regulators
- New IFRS requirements – Emphasis on implementation and disclosures
- Previous years' ESMA priorities remain relevant
- Areas of focus include the impact of financial market conditions, the statement of cash flows and fair value measurement

Priorities for national regulators

A [statement](#) issued by the European Securities and Markets Authority highlights the areas of focus for European national regulators when reviewing IFRS financial statements for the year ended 31 December 2015.

These focus areas include the way current financial market conditions affect the financial statements, as well as some recurring issues identified when IFRS requirements are applied – in particular, those on statements of cash flows and fair value measurement, as well as related disclosures.

ESMA has also issued a statement on [improving the quality of disclosures](#), in which it urges companies and their auditors to improve the quality of disclosures in financial statements, paying particular attention to materiality and relevance.

New IFRS requirements

ESMA has urged companies to consider the impact of [new standards](#) on their financial statements – in particular IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*, as these could have a significant impact.

Companies are reminded of the requirement to provide information enabling users to assess the impact that those new standards will have on their financial statements.

The statement also encourages companies to prepare for implementation, so that their reporting procedures and systems are ready when the new requirements become mandatory.

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.

The [2014 and 2013](#) priorities covered areas such as consolidated financial statements, joint arrangements, impairment of financial and non-financial assets, fair value measurement and disclosures on risks arising from financial instruments.

Although the topics included in the statement are those deemed to be most relevant at a European level, regulatory bodies outside of Europe are also likely to pay particular attention to the same topics.

Areas of focus

| Areas of focus | Specific points to consider |
|---|---|
| Impact of financial market conditions on the financial statements | <ul style="list-style-type: none"> – Disclosure of management judgements and assumptions – Assessment of the exposure to high volatility and low commodity prices in relation to asset valuation – The effect of the current interest rate environment when adjusting inputs to valuation models – The nature of risks associated with transactions in certain countries, such as foreign exchange rate risk and country risk |
| Statement of cash flows and related disclosures | <ul style="list-style-type: none"> – Disclosure of information on the classification of each material item – Disclosure of the reasoning for those cases where the classification of cash flows involves more judgement – e.g. 'reverse factoring' – Assessment of cash and cash equivalents criteria – Exclusion of non-cash transactions from the statement of cash flows – Separate presentation of significant cash flows |
| Fair value measurement and related disclosures | <ul style="list-style-type: none"> – Measurement and disclosures provided for assets and liabilities recognised at fair value (or fair value less costs to sell) as required by: <ul style="list-style-type: none"> - IFRS 3 <i>Business Combinations</i>; - IFRS 5 <i>Non-current Assets Held for Sale</i>; and - IAS 40 <i>Investment Property</i> – Compliance with IFRS in valuation techniques used to measure fair value – Assessment of the extent to which unobservable inputs are used to determine fair value – Disclosure of valuation techniques and inputs used, and whether any changes have been made to either of these |