



ESMA enforcement priorities for 2023

15 November 2023

Global IFRS Institute



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“The world around us is rapidly changing. ESMA expects companies to tell the story of how they are impacted by and respond to major challenges like climate effects and the current economic environment in a connected way.”

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Calling for transparency and consistency within annual reports

Highlights

- [Climate-related matters](#)
- [Challenges posed by the current macroeconomic environment](#)
- [Use of alternative performance measures \(APMs\)](#)
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To promote the consistent application of IFRS[®] Accounting Standards and EU-specific reporting requirements, the European regulator ESMA¹ has issued its priorities for 2023 annual reports. In its [statement](#), ESMA highlights the areas that European national securities regulators will focus on² when reviewing listed companies' 2023 annual reports.

ESMA calls for consistency across the annual report. It expects companies to tell a connected story of how they are impacted by and respond to:

- climate-related matters; and
- challenges posed by the current macroeconomic environment.

In addition, ESMA re-emphasises the need for APMs to be transparent, neutral and consistent over time to provide useful information.

The topics addressed in ESMA's statement indicate an increasing focus on the front part of the annual report.

Regulatory bodies outside Europe are also likely to focus on similar topics relevant for companies that report under IFRS Accounting Standards. However, some of ESMA's focus areas – e.g. sustainability reporting under the European standards – currently may be most relevant for European companies.

Climate-related and other environmental matters

Priorities related to financial statements

Climate-related matters continue to top the list of ESMA's enforcement priorities. ESMA reminds companies and auditors to consider climate-related matters when their effects are material and focus on the following.

1. European Securities and Markets Authority.
2. The topics in the statement issued by ESMA are not exhaustive and national regulators in the EU may specify additional areas of focus.

- **Consistency within the annual report:** ESMA emphasises the need for consistency between the financial statements and non-financial information (e.g. between the assumptions used in estimations and measurements and climate-related commitments, targets and decarbonisation plans).
- **Impairment testing:** ESMA reminds companies to consider climate-related risks when assessing indicators of impairment. When applicable, companies are expected to explain any inconsistencies between the assumptions used in their impairment testing or provisions and their climate-related commitments, plans and/or strategies.
- **Emissions:** ESMA encourages companies to explain their accounting treatment for emissions trading schemes, renewable energy certificates and power purchase agreements. Companies may need to recognise provisions when legal arrangements on greenhouse gas (GHG) emissions give rise to obligations to purchase GHG emissions rights if they emit pollutants above the limit.
- **Green financing:** ESMA includes specific considerations for financial institutions engaged in green financing (e.g. ESG-indexed loans), including when climate-related risks affect their expected credit losses.

ESMA has also published a [report](#) on disclosing climate-related matters in the financial statements, including illustrative examples of real-life disclosures.

Priorities related to non-financial statements

ESMA expects that implementing the new European Sustainability Reporting Standards (ESRSs) – effective as of 1 January 2024 – and EU Taxonomy Regulation will be a significant learning curve for companies. Therefore, it encourages companies to closely monitor upcoming legislative initiatives and to carefully plan and manage their transition projects and resources to ensure compliance in their non-financial reports.

Given the additional EU Taxonomy Regulation requirements for 2023 financial years, ESMA reminds companies about the requirement to use the latest reporting templates. In addition, companies need to explain how they have avoided double-counting in calculating the key performance indicators when an economic activity substantially contributes to multiple environmental objectives.

ESMA encourages companies to provide more transparent information about their climate-related targets. It also identified Scope 3 GHG emissions as an area for significant improvements.

Challenges posed by the current macroeconomic environment

When preparing their annual reports, ESMA urges companies to:

- explain how changes in the macroeconomic environment (including the effects of increasing interest rates, inflation and volatile markets) affect their exposures to market, liquidity and credit risks and how they manage these risks;
- consider the impact of the current economic environment on hedge accounting; and
- reflect the current macroeconomic conditions and increased uncertainty in fair value measurements (e.g. for investment properties) and the related disclosures.

Use of alternative performance measures (APMs)

ESMA reminds companies of the requirements in its [Guidelines on APMs](#) and refers them to the related [Q&A](#). When they use APMs to tell their connected story, companies are required to:

- provide a transparent definition and a reconciliation to the most directly reconcilable item presented in the financial statements;

- use the measures consistently over time and exercise caution when adjusting them; and
- give a neutral (i.e. unbiased) representation of their performance.

Find out more

Our 2023 **guides** to financial statements will help you ensure your financial reporting provides the information that users need through clear, meaningful and specific disclosures. Along with **Insights into IFRS®**, our **table** of newly effective accounting standards and our resource centres on the financial reporting impacts of **uncertain times** and **climate change**, these guides form part of your essential reporting toolkit for the end of the reporting period.

See also our **Ready for ESG reporting** resources for the latest information on the international, EU and US requirements.

Publication name: *ESMA enforcement priorities for 2023*

Publication date: November 2023

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