ESMA enforcement priorities for 2022

Summary of ESMA's expectations

This table summarises ESMA's priorities. As well as priorities based on IFRS® Accounting Standards, ESMA highlights additional priorities that relate to requirements in EU legislation. Companies that apply European laws and regulations need to look closely at ESMA's expectations, including those on current reporting requirements under the Non-Financial Reporting Directive (NFRD) and the EU taxonomy regulation. They also need to keep up to date with the latest developments related to the forthcoming requirements under the European Corporate Sustainability Reporting Directive (CSRD).

Topic	ESMA's expectations
Climate-related matters	
Overarching considerations	• Consider the consistency between the judgements and estimates made in the financial statements and the information disclosed on climate-related risks and uncertainties in the front part of the annual report. • Avoid boilerplate language when disclosing how climate-related matters have been assessed. • Disclose the assessments, judgements and time horizon applied if you have concluded that there is no material impact on either the company's operations or its assets and liabilities. • Continue to consider the climate-related 2021 expectations; these remain relevant for 2022 reporting.
Impairment of non-financial assets	• Consider measures taken to prevent or mitigate climate-related risks when assessing whether indicators exist that non-financial assets may be impaired. • Consider climate-related matters, including commitments made in assumptions used to test for impairment. • Consider changes in customer behaviour and the costs to meet emission reduction commitments when calculating the recoverable amount of cash-generating units (CGUs). • Apply a steady, declining or even negative long-term or terminal growth rate in cash flow projections in industries that are highly dependent on fossil fuels. • Disclose whether and how climate-related matters are factored in when determining cash flows, discount rate and the long-term growth rate or terminal value of a CGU. Disclose climate scenarios that were taken into account in cash flow scenarios. • Present the impact of climate-related assumptions in the sensitivity analysis and provide clear descriptions of these assumptions.
Provisions, contingent liabilities and contingent assets	• Consider whether carbon emission reduction commitments give rise to legal or constructive obligations.
Power purchase agreements	• Provide transparent disclosure on financial impacts of power purchase agreements or similar agreements and the approach applied to account for them.

Non-financial information (NFRD)	• Disclose the strategy to reach climate goals and detailed descriptions on how to accomplish the transition. • Avoid boilerplate claims but provide concrete explanations on how the company plans to achieve carbon neutrality, including the base year to calculate reductions, and whether emission reductions are achieved in their value chain or outside the value chain (e.g. through purchasing carbon credits). • Disclose sufficient explanations on the uncertainties surrounding forward-looking climate targets, including how likely the company is to meet them in light of science-based evidence, and any material conflicts between different environmental objectives. • Provide transparent disclosures on methodological principles, assumptions and reporting boundaries for measuring actual emissions. • Explain how the Russia-Ukraine conflict might impact the ability to meet environmental targets and whether transition plans have been affected. • Consider the Guidelines on reporting climate-related information issued by the European Commission.
Direct impacts of Russia-Ukraine conflict	
Topics from the half-year statement	• Consider the expectations expressed in ESMA's May 2022 statement on numerous topics, including judgements and estimation uncertainties, going concern, impairment of financial and non-financial assets (also included below), financial risks, the classification of abandoned operations and events after the reporting date.
Financial performance	• Provide useful qualitative and quantitative information on the impacts of the Russia-Ukraine conflict on profit or loss (and the measurement of assets and liabilities) in the notes to the financial statements. • Assess carefully whether separate presentation of the impacts in the statement of profit or loss leads to an unfaithful presentation of the company's financial performance. • Apply similar considerations for alternative performance measures (APMs). See Question 18 of the ESMA Q&A on APMs, which also applies for the impacts of the Russia-Ukraine conflict.
Control, joint control and significant influence	• Consider all relevant facts and circumstances (e.g. contractual clauses, buy-back options, continuing management involvement) when assessing whether control, joint control or significant influence has been lost. • Disclose all relevant information in relation to contracts to dispose of interests in other entities. • Recognise and measure buy-back options on interests in other entities under IFRS 9 *Financial Instruments*.
Discontinued operations and assets held-for-sale	• Assess the impact of exit plans, bearing in mind all relevant criteria for classification of operations as discontinued operations and assets held-for-sale. • Disclose transparent information on the judgements applied. • Ensure consistency of the information provided across the annual report.
Impairment of non-financial assets	• Consider the impact of strategic decisions (e.g. to exit investments) in assessing whether an indicator of impairment exists and when determining the assumptions used in impairment testing.

	• Assess whether multiple scenarios need to be developed to reflect uncertainties in performing impairment tests and projecting cash flows. If there are multiple scenarios, then determine the appropriate weighting. • Reflect appropriately in the discount rate the risks and uncertainties that have not yet been factored into projected cash flows. • Reflect the uncertainties relating to prices and availability of energy in the impairment test sensitivity analysis. • Disclose key financial and operational assumptions used (including scenarios and their weighting) and significant changes compared with previous impairment tests.
Current macroeconomic environment	
Overarching considerations	• Assess and reflect the impacts of the current macroeconomic environment and uncertainties on the financial statements (including going concern and impacts of energy costs on operations). • Provide clear, detailed, relevant, accurate and timely information on those impacts to users.
Impairment of non-financial assets	• Consider the impact of the current macroeconomic environment (e.g. increased interest rates and uncertainty affecting discount rates) in assessing whether an indicator of impairment exists and when performing impairment tests. • Explain how increasing interest rates and the high price and volatility of commodities (together with any mitigating government measures) were factored into the key assumptions used in impairment tests (e.g. discount rate, cash flow projections for costs and revenue, terminal value and growth rates). • Reflect the current uncertainties in the range of reasonably possible changes in key assumptions underlying the sensitivity analysis.
Employee benefits	• Reflect the current macroeconomic environment in actuarial assumptions (e.g. consider the impact of inflation on post-employment benefit plans). • Provide the disclosures required by IAS 19 *Employee Benefits* for defined benefit plans (reconciliations, actuarial assumptions and sensitivity analysis).
Revenue from contracts with customers	• Consider the impact of the current macroeconomic environment on the recoverability and, in turn, the recognition of costs to fulfil a contract. • Assess whether contracts have become onerous. • Reflect appropriately increases in contracted selling prices. • Provide disclosures on provisions for onerous contracts and judgements used in determining the transaction price and the amounts allocated to performance obligations.
Financial instruments	• Provide disclosures on the exposure to risks resulting from the current macroeconomic environment (e.g. interest rate risks, commodity price risks and liquidity risks) and, where they are material, the corresponding sensitivity analyses (including methodologies and assumptions). • Explain how the challenging macroeconomic environment has impacted expected credit loss (ECL) calculations and provide meaningful disclosures on the related credit risks (including exposure to specific sectors). • Consider ESMA's 2021 expectations in relation to management overlays and their impacts on ECL.

	• Assess carefully whether the criteria for reclassifying financial assets are met and, in the case of reclassifications (which ESMA expects to be rare), provide the required disclosures.
Other areas of focus	
IFRS 17 *Insurance Contracts* implementation	• Provide transparent disclosures, considering the expectations expressed in ESMA's May 2022 statement. • Apply appropriately the requirements in IFRS 10 *Consolidated Financial Statements* to financial conglomerates (which might lead to different contractual service margins).
APMs	• Assess which financial statement subtotals are in the scope of ESMA's Guidelines on APMs, with reference to Question 2 of the ESMA Q&A on APMs. • Apply the Guidelines on APMs relating to the definition of APMs, their components, their consistency over time and their reconciliation to the most directly reconcilable item in the financial statements.
Taxonomy-related disclosures	• Disclose quantitative taxonomy information using the mandatory templates provided in the Annexes to the Delegated Act on Article 8. The total of eligible and non-eligible activities should always amount to 100%. • Provide robust disclosures on the nature of economic activities and how alignment criteria have been assessed. In particular, provide information on the assessment made to conclude on the 'do no significant harm' principles and the minimum safeguards. • Disclose information about methodological choices and judgements made on interpretative questions. • Explain large changes in eligibility rates compared with last year – e.g. because of fine-tuning the methodology. • Consider the two sets of FAQs issued by the European Commission in December 2021 and February 2022 and the ESMA Q&A on APMs.
Reporting scope and data quality	• Consider expanding the scope of the reporting beyond that used for financial reporting to also cover supply and sales chains. • Disclose the scope of reporting applied to the non-financial reporting and provide information about inclusions and exclusions that are made compared with the scope of the financial reporting. • Report on data collection processes and due diligence performed over this data to provide transparency over the quality of the non-financial data.
European Single Electronic Format (ESEF)	• Apply the newly effective block-tagging requirements; see ESMA's ESEF Reporting Manual.