European Securities and Markets Authority

Report

Activities of the IFRS Enforcers in Europe in 2013

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European Securities and Markets Authority

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TABLE OF CONTENTS

List of abbreviations and acronyms used in this report:

APM	Alternative Performance Measures
ARC	Accounting Regulatory Committee
CA	Competent Authority
CESR	Committee of European Securities Regulators
CGU	Cash-Generating Unit
CRSC	Corporate Reporting Standing Committee
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council
EEA	European Economic Area
EECS	European Enforcers Coordination Sessions
EFRAG	European Financial Reporting Advisory Group
EIOPA	European Insurance and Occupational Pensions Authority
ESA	European Supervisory Authority
ESRB	European Systemic Risk Board
EU	European Union
GAAP	Generally Accepted Accounting Principles
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standard
IFRS IC	International Financial Reporting Standards Interpretation Committee
IOSCO	International Organization of Securities Commissions
US SEC	United States Securities and Exchange Commission

ESMA Regulation	Regulation 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC
IAS Regulation	Regulation (EC) No 1606/2002 of 19 July 2002 of the European Parliament and of the Council on the application of international accounting standards
Transparency Directive	Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market[1]

[1] amended by Directive 2013/50/EU of the European Parliament and of the Council of 22 October 2013

Executive Summary

This report provides an overview of the activities conducted at European and national level with respect to examining compliance of financial information with the applicable reporting framework of listed issuers on regulated markets and other activities conducted in conjunction with the objective of contributing to supervisory convergence in the area of accounting, and in particular with respect to the International Financial Reporting Standards (IFRS) in the European Economic Area (EEA) in the year ended 31 December 2013.

The report is based on the activities of the European Securities and Markets Authority (ESMA) and accounting enforcers in the EEA (European enforcers). The report provides a description of the existing enforcement system in Europe, the main activities that were coordinated at European level during 2013, information on enforcement activities and ESMA's contribution to the standard setting process.

In 2013, based on the enforcement experience accumulated over the last 8 years, ESMA published a consultation paper with proposed guidelines for the enforcement of financial information. These guidelines contain principles to be followed by European enforcers and formalise ESMA's role in the enforcement process. ESMA expects to finalise the guidelines in 2014.

ESMA undertook a review of the accounting practices of European financial institutions and published a report on the comparability of their IFRS financial statements. The report considered matters arising from previous risk-assessment analyses and experience of European enforcers. ESMA evaluated whether the information provided enables investors to assess the overall risks of a financial institution and enhances its comparability with other financial institutions. In cases where the findings of the review pointed to a material breach of the IFRS requirements, European enforcers took enforcement actions proportionate to the nature of the infringement. ESMA expects that European financial institutions take into account the results of the report to achieve an increased level of transparency in their financial statements, in particular in light of the comprehensive assessment of the banking sector in the Eurozone which is performed in 2014 by the ECB before assuming its supervisory responsibilities.

European enforcers and ESMA evaluated the level of compliance with IFRS in the areas identified as common enforcement priorities for 2012 IFRS financial statements. As a result of this evaluation performed on a sample of 185 IFRS financial statements, European enforcers took 46 enforcement actions. Shortcomings were identified in particular in issuers' disclosures of management's approach to key assumptions and the sensitivity analysis related to impairment of goodwill.

ESMA together with national enforcers identified and made public its second set of annual common enforcement priorities highlighting topics significant for European issuers when preparing their 2013 IFRS financial statements. In light of the previously identified shortcomings, ESMA retained measurement and disclosure of impairment of non-financial assets as part of these priorities and expects issuers to address its concerns which are discussed later in this report. Furthermore, given the continuing importance of accounting issues for financial institutions in 2014, ESMA together with national enforcers will also focus on monitoring the level of impairment of financial assets and the level of transparency in the area of forbearance, liquidity risk, asset encumbrance and fair value measurement.

IFRS enforcement activities at Member States' level remained stable in 2013 compared to the previous year with activities reinforced at European level. European enforcers reviewed approximately 1900 interim and annual IFRS financial statements and took around 500 enforcement actions. Deficiencies were identified notably in the following areas: impairment of non-financial assets, recognition and measurement of deferred tax assets, distinction between a change in an accounting policy and a change in an accounting estimate and recognition of financial liabilities. Where an infringement was identified national enforcers took appropriate enforcement actions.

ESMA increased its contribution to the standard-setting process by submitting to the IFRS Interpretations Committee (IFRS IC) eight issues where diversity in practice was identified, requesting additional guidance in areas where a lack of clarity in IFRS might have contributed to their divergent application. ESMA submitted 15 comment letters covering all IASB major Exposure Drafts opened for comments and conveying the views of European enforcers on proposed new standards and interpretations.

ESMA continued to contribute to the European process of endorsement of IFRS through its observer status in the Accounting Regulatory Committee (ARC) and the European Financial Reporting Advisory Group (EFRAG). In 2013, the European Commission (EC) examined ways of reinforcing the EU's contribution to IFRS and suggested for changes to the governance of the institutional system for endorsing IFRS in Europe. The EC is expected to implement the suggested changes in 2014, which may entail changes to how ESMA contributes to the endorsement process.

I INTRODUCTION

1. This report provides an overview of the financial information supervision and enforcement activities carried out during the year ended 31 December 2013 at European and national levels in the EU and those countries from the EEA[2] who agreed to comply with the Transparency Directive and IAS Regulation. They are generally referred to as "European" activities in the content of this report.

2. The report is addressed to all stakeholders including European issuers, investors, auditors, other regulators and the general public. It only focuses on enforcement activities related to IFRS financial statements and does not take into account any other supervision activities conducted by national enforcers on other general accounting practices.

3. This report describes the existing enforcement system in Europe and the main activities coordinated at the European level during 2013; it provides information on enforcement activities in European jurisdictions and describes ESMA's cooperation with other third parties on matters related to IFRS. The report also briefly mentions other developments related to activities of IFRS enforcers: amendments to Transparency Directive that give ESMA a role related to digital reporting, on-going evaluation of the IAS Regulation and the proposed changes to the governance of the European endorsement system.

II DESCRIPTION OF THE ENFORCEMENT SYSTEM

4. This section provides a description of the main features of the European enforcement system on financial reporting. Enforcement activity refers to the examining of compliance of financial information with the applicable reporting framework and taking appropriate measures in respect of infringements discovered in the course of compliance reviews.

European enforcement system on financial reporting

5. One of ESMA's areas of responsibility is to promote the effective and consistent application of the European Securities and Markets legislation with respect to financial reporting. The objective of ESMA is to help fostering supervisory convergence in Europe thereby reducing regulatory arbitrage resulting from different supervisory practices. Divergent enforcement practices could undermine not only the integrity, efficiency and orderly functioning of the EU Single Market but also have an impact on financial stability.

6. The scope of enforcement of financial information of listed companies on the regulated markets as defined under the Transparency Directive covers all reporting frameworks applicable to listed issuers including: IFRS as endorsed by the EU for consolidated financial statements, IFRS as endorsed by the EU or national Generally Accepted Accounting Principles (GAAPs) when applied to non-consolidated financial statements and

[2] Iceland and Norway

third country accounting standards for non-European issuers, if deemed equivalent to IFRS or IFRS as endorsed in the EU. However, the main areas of focus of ESMA are in relation to issues derived from the requirements in the Transparency Directive in relation to the application of the IAS Regulation.

7. Aligning of technical positions and decisions taken by enforcers when reviewing IFRS financial statements is key to the EU Single Market. To meet this objective, ESMA put in place EECS, a forum of 39 European enforcers from the 28 EU Member States and the 2 countries in the EEA who have responsibilities in the area of supervision and enforcement of financial information. With more than 6700 listed issuers publishing IFRS financial statements on the European regulated markets, EECS currently constitutes the largest regional enforcers' network with supervision responsibilities for IFRS.

8. Through EECS, European enforcers are able to share and compare their practical experiences on the enforcement of IFRS financial information provided by entities which have, or which are in the process of having, securities admitted to trading on a regulated market in Europe. It provides a forum to discuss enforcement cases before or after decisions are taken by the European enforcers and provides technical advice on the issuance of ESMA Statements and/or opinions on accounting matters which deserve specific focus. In addition, it reviews accounting practices applied by European issuers to enable ESMA to monitor market developments and changes in those practices.

9. As a result of the enforcement coordination, ESMA is able to identify areas where a lack of guidance from the standards or divergent interpretations of the IFRS are observed. Such matters are then referred to the IASB or the IFRS IC, as appropriate.

Enforcement system at national level

10. Supervision of listed entities and enforcement of financial information is performed at national level as required by the Transparency Directive, according to which each Member State has to designate a Competent Authority for the enforcement of financial information. According to the Transparency Directive, other organisations are allowed to carry out enforcement activities, either in their own right or on behalf of the competent authorities (i.e. by delegation of tasks), provided that these delegated bodies are supervised by, and responsible to, the relevant competent authority.

11. The enforcement structures in the various countries may differ. Whereas in the majority of countries enforcement is carried out by the central competent administrative authority, in some countries[3] enforcement is performed by designated bodies or by a combination of public authorities and private bodies. Other countries[4] choose to divide enforcement responsibilities between different administrative authorities depending on the type of issuer.

[3] Austria, Germany, Ireland, Sweden and United Kingdom
[4] Denmark, Portugal, Slovenia

12. Austria was the last country in the EU that did not have a formal IFRS enforcement system. As a result of the Accounting Control Act passed by Austrian legislators in December 2012, a two-tier enforcement system has been created. Enforcement activities will be carried out for the first time for financial statements covering the financial reporting period that ended in 2013.

13. As of 1 July 2013, Croatia became the 28th member of the EU. HANFA, the Croatian Financial Services Supervisory Agency, was designated as a Competent Authority for the enforcement of financial information.

14. Irrespective of the type of enforcement structures adopted by individual jurisdictions, which can lead to different processes, national enforcers serve a common objective – to promote market confidence and to protect investors by contributing to the transparency of financial information via the effective and consistent application of the financial reporting framework.

Strengthening of the coordination of enforcement of financial information

15. Based on the requirements in the Transparency Directive, in 2003 and 2004 ESMA's predecessor[5] established a framework for enforcement activity by issuing two principles based standards: Standard No. 1 – Enforcement of standards on financial information in Europe (CESR/03-073[6]) and Standard No. 2 – Co-ordination of enforcement activities (CESR/03-317c[7]), accompanied by Guidance for the implementation of co-ordination of enforcement of financial information (CESR/04-257b[8]), thereafter referred to together as "Enforcement standards". Although not legally binding, these Enforcement standards constitute the basis for the harmonisation of supervisory practices on financial information in the EU.

16. In light of the new legislative framework, following the ESMA Regulation coming into force, ESMA decided to review the Enforcement standards and issue draft Guidelines. The review was based on the experience gained using the Enforcement standards since 2005, the discussions held in EECS on enforcement decisions and developments in the European supervisory environment.

17. In July 2013 ESMA issued a consultation paper (ESMA/2013/1013[9]) containing draft guidelines on enforcement of financial information intended to collect the views of market participants in this respect. The consultation paper described the approach followed in developing the draft guidelines and the main developments compared to the Enforcement standards. The objective of those draft guidelines is to foster supervisory convergence and

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[5] Committee of European Securities Regulators (CESR)
[6] http://www.esma.europa.eu/system/files/03_073.pdf
[7] http://www.esma.europa.eu/system/files/03_317c.pdf
[8] http://www.esma.europa.eu/system/files/04_257b.pdf
[9] http://www.esma.europa.eu/consultation/Guidelines-enforcement-financial-information

strengthen the coordination related to enforcement of financial information at the European level. ESMA is currently analysing the responses received to the consultation paper.

18. The draft guidelines are principles-based and define the enforcement and its scope, the expected characteristics of the enforcers, the specific elements of the enforcement activities (such as selection methods, enforcement actions) at the national level. The draft guidelines would formalise and strengthen the coordination role of ESMA at European level by embedding the role of the European Common Enforcement Priorities in ESMA's work programme and by clarifying the criteria for discussion of emerging issues and decisions within EECS.

III Overview of activities coordinated in Europe

19. This section provides an overview of the main activities coordinated by ESMA in 2013:

    A. European Common Enforcement Priorities

    B. European enforcers reviews of IFRS accounting practices

    C. Coordination of enforcement decisions

    D. ESMA enforcement database

    E. Other activities

A) European Common Enforcement Priorities

20. An important step in fostering supervisory convergence in Europe consists of establishing common enforcement priorities for financial reporting and communicating them to stakeholders in advance of finalisation of the year end's reports. ESMA has agreed and published the European Common Enforcement Priorities for 2012 and 2013 year-end IFRS financial statements. ESMA believes that announcing them in advance of the finalisation of the financial statements helps to prevent misstatements and contributes to improvements in the consistency and quality of financial reporting in Europe.

Assessment of European Enforcement Priorities in 2013

21. During 2013, ESMA together with national enforcers considered the application of the 2012 European Common Enforcement Priorities (ESMA/2012/725[10]) in the 2012 annual IFRS financial statements. In order to ensure a relevant assessment at European level, ESMA

[10] http://www.esma.europa.eu/system/files/2012-725.pdf

selected a sample of 185 issuers from 25 European countries for review by national enforcers. The 2012 European Common Enforcement Priorities related to recognition, measurement and disclosure of impairment of non-financial assets, measurement of defined benefit obligations, and disclosures related to provisions for non-financial liabilities.

22. The analysis of the issues related to financial instruments was performed separately as part of ESMA's review of accounting practices of financial institutions and resulted in publication of its report on comparability of their IFRS financial statements. Details on that review are included in the section III.B of this report.

- **Impairment of non-current assets**

23. ESMA has regularly identified the application of IAS 36 – *Impairment of non-financial assets* as one of the areas posing challenges to issuers taking into account shortcomings in the disclosures in the IFRS financial statements. In 2012, ESMA together with the European enforcers performed a review of the IFRS financial statements related to impairment of goodwill that resulted in the report published in January 2013 (ESMA/2013/2[11]). The report illustrated that goodwill impairment losses were limited to a handful of issuers, concentrated in a very limited number of industries and identified shortcomings in relation to certain disclosures.

24. The reviews of the sample above mentioned performed in 2013 aimed at monitoring the application and compliance of IFRS requirements on goodwill impairment and assessing whether sufficient relevant disclosures. It revealed the key following points:

Impairment of non-current assets – Key assumptions

25. When analysing the issuers with significant amounts of goodwill, ESMA noted that more than three quarters of issuers described the key assumptions used in the goodwill impairment test. Two thirds of these issuers provided narrative disclosures while the remaining third accompanied the narrative disclosures with quantitative description.

26. ESMA is concerned to observe that less than half of the issuers describing their key assumptions provided a specific description of their approach to determining the value assigned to key assumptions, while more than a third provided only a generic description, using phrases copied from IAS 36 – *Impairment of Assets*.

27. Almost three quarters of the issuers disclosed the discount rate separately for each significant cash-generating unit (CGU) or disclosed a single discount rate and stated that the risks specific to the CGU were reflected in the cash flows.

28. Almost one third of issuers applied a long term growth rate equal to or exceeding 3%. In many cases these related to CGUs located outside Europe. Approximately half of these issuers provided disclosures that explained the use of such a growth rate (e.g. pointing out to specific geographical areas or industries for which such growth rate is justified). For the

[11] http://www.esma.europa.eu/system/files/2013-02.pdf

remaining issuers, if the growth rate used exceeded the long term average growth rate for the country or industry, such growth rate needs to be justified and the level of disclosures improved.

29. Among the most frequently disclosed key assumptions were margins (or separate development of sales prices and cost levels) and sales volumes. In some cases other metrics specific to the entity or industry were used (e.g. market prices, inflation rates, market share, regulatory capital allocation, risk costs, exchange rates), but their relative frequency was lower.

Impairment of non-current assets – Sensitivity analysis

30. Around half of the issuers with significant goodwill balances provided a sensitivity analysis per CGU or a statement that no reasonably possible variation of a key assumption would lead to impairment. A further third of issuers disclosed the sensitivity analysis either in an aggregated form or did not disclose a full set of required information for all CGUs – however, for a majority of these issuers, information provided could enable users to understand the extent of risks associated with the CGU.

31. The majority of the issuers which provided a sensitivity analysis did so for the effect of changes in the discount rate or long term growth rate. The wording of the standard requires that the sensitivity is given for a reasonable possible change in a key (operating) assumption on which management has based its determination of the recoverable amount. More than half of the issuers provided the analysis for a key (operating) assumption. Only slightly more than a third of the issuers related the sensitivity to all three elements (key operating assumption, discount rate and growth rate).

32. When issuers stated that '*no reasonably possible variation of a key operational assumption would lead to impairment*', in half of the cases no explanation was provided of what is a reasonably possible variation. However, encouragingly more than three quarters of issuers provided such explanation when book value of equity exceeded the market capitalisation.

33. ESMA expects that issuers provide entity specific descriptions of their approach to determining the value assigned to key assumptions when performing impairment testing of goodwill. It notes that disaggregated disclosures by significant CGU or group of CGUs should be provided in the financial statements in relation to the long-term growth rate, the discount rate and the key operational assumptions used in the impairment test accompanies, when relevant, by the related sensitivity analysis.

- **Defined benefit obligations**

34. In light of the low interest rate environment and the consequences of sovereign bonds crisis, ESMA identified the application of the requirements of IAS 19 – *Employee benefits* to determine the discount rate in the Eurozone as highly relevant given the decrease in the number of high-quality corporate bonds in some Eurozone countries. Almost two thirds of issuers in the sample reported significant defined benefit obligations related to pension

schemes in the Eurozone.

35. Around one third of issuers disclosed that the discount rate had been determined with reference to the yields based on the Eurozone wide high-quality corporate bond index with a credit quality higher or equal to AA rating or its equivalent. However, more than half of the issuers did not specify the credit quality or the rating grade they considered to be of high quality.

36. Furthermore, almost a third of the issuers disclosed that the discount rate was determined with a reference to the yield on high-quality corporate bonds at national level rather than at the Eurozone level.

37. ESMA found in the sample only few issuers that determined their discount rate for defined benefit obligations related to schemes in the Eurozone either with reference to government bonds or high-quality corporate bonds that expressly included bonds of lower credit quality than AA. Where infringement was identified, appropriate enforcement action has been taken by the respective national enforcer.

38. On the other hand, for pension plans located outside of the Eurozone, especially in smaller EU member states, the discount rate was often determined with reference to the yields on the government bonds.

39. Approximately 15% of issuers disclosed adjustments that were made to the observable rate/index. These mostly related to extrapolation of the observable data to longer periods or interpolation for missing data points. Approximately 20% of the issuers disclosed a change in the method of determination of the discount rate in comparison with the prior reporting period. Out of those issuers a majority provided explanations on that change, usually related to a change of the underlying credit index used. ESMA welcomes these explanations as they allow users to assess the effects of the changes in the method of determination of the discount rate on the financial position and the performance of issuers.

40. ESMA expects issuers to reflect the November 2013 IFRS IC agenda decision on actuarial assumptions[12] when determining the discount rate for their post-employment benefit obligations in their 31 December 2013 IFRS financial statements and to provide sufficient information to enable users to understand how the discount rate was determined and assess its effects on the financial position and performance of the issuer.

- **Provisions for non-financial liabilities**

41. Overall, quantitative information that reflected the different nature and relative significance of provisions was provided. On average, the 'other' category amounted to 28% of total provisions, with a quarter of the issuers categorising less than 10% of the total amount in this category. Disappointingly, 21% of issuers categorized more than half of the total amount of provisions in the 'other' category, without providing specific information on its nature.

42. More than three quarters of the issuers disclosed an entity-specific description on the

[12] IFRIC Update November 2013, Interpretations Committee agenda decision, IAS 19 *Employee benefits* – Actuarial assumptions: discount rate, http://media.ifrs.org/2013/IFRIC/November/IFRIC-Update-November-2013.html#3

nature of the obligation for each significant class of provision. Approximately 10% of the issuers provided this description for some but not all significant classes of provisions. While almost half of the issuers disclosed uncertainties about the major assumptions made concerning future events or significant categories of provisions, approximately half of the issuers did not provide such explanation irrespective of the significance of provisions for these issuers.

43. ESMA expects issuers to describe uncertainties about the major assumptions around future events by class of provision, when material or relevant.

Enforcement actions and follow up

44. As a result of review of the sample of 185 financial statements, in 2013, national enforcers took 46 enforcement actions[13] related to the 2012 European Common Enforcement Priorities as follows:

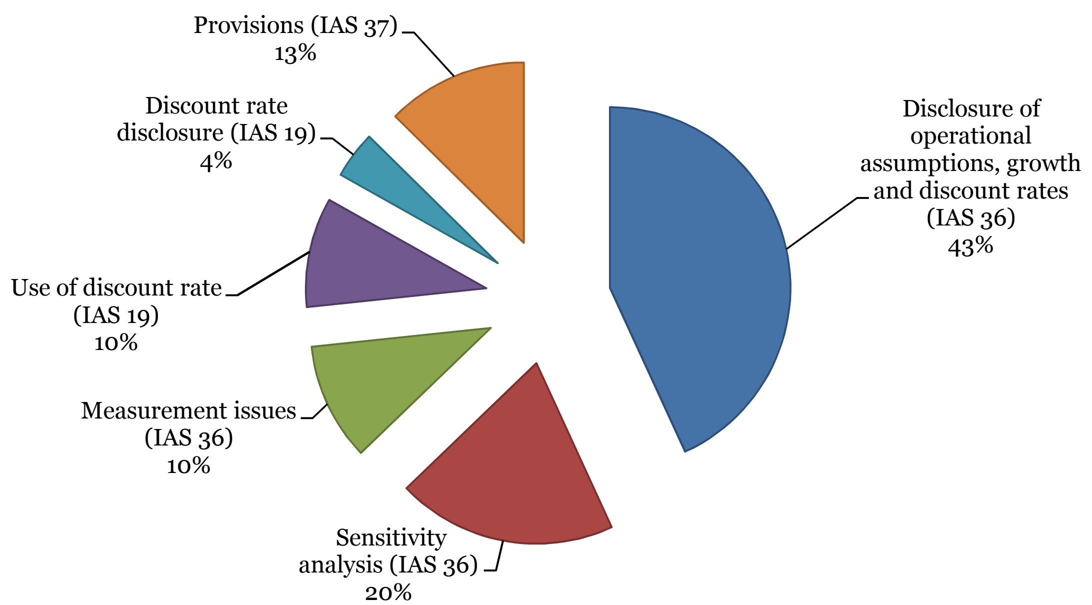
- 16 required public corrective notes or other public announcement;
- 30 required corrections in future financial statements;

In addition, notifications were issued to a further 23 issuers without requiring a corrective action or public announcement.

[13] For the description of the enforcement actions available to enforcers please refer to paragraph 91-93 of this report

Graph 1 below provides an overview of the enforcement actions related to European Common Enforcement Priorities taken in 2013 by accounting area:

Graph 1: Actions related to European Common Enforcement Priorities taken in 2013



45. ESMA and the national enforcers identified improvement in the quality of elements of disclosure in 2012 IFRS financial statements in comparison with the results of their enforcement activities in the prior year. In light of these results, ESMA has decided to retain specific elements related to the measurement of impairment of non-financial assets, notably the disclosure of the management approach to determining the values of the key assumptions and disclosure of sensitivity analysis provided in this regard, as part of the assessment of European Common Enforcement Priorities in 2014. ESMA expects issuers to address the concerns raised by the assessment of the enforcement priorities in their financial statements.

Assessment of European Common Enforcement Priorities in 2014

46. 2013 was the second year ESMA, together with national enforcers, identified common enforcement priorities in advance of the preparation, audit and publication of issuers' 2013 IFRS financial statements. The ESMA Statement (ESMA/2013/1634[14]) contains financial reporting topics that were identified as particularly significant for European issuers on the basis of relevant economic and market factors observed in 2013. When selecting the topics for the 2013 European Common Enforcement Priorities, ESMA took into account the assessment of their application performed in 2013 and consulted with the Consultative Working Group of the Corporate Reporting Standing Committee.

[14] http://www.esma.europa.eu/system/files/2013-1634_esma_public_statement_-_european_common_enforcement_priorities_for_2013_financial_statements_1.pdf

47. These priorities focus on the application of IFRS in relation to the following topics:

- Impairment of non-financial assets;
- Measurement and disclosure of post-employment benefit obligations, notably in relation to amendments to IAS 19 applicable in 2013;
- Fair value measurement and disclosure;
- Disclosures related to significant accounting policies, judgements and estimates; and
- Measurement of financial instruments and disclosure of related risks.

48. Monitoring the way issuers address these priorities is part of the work programme of ESMA and European enforcers, who will consider them in their review of financial statements for the year ended 31 December 2013. ESMA will report in its 2014 Activity Report how European issuers applied the IFRS requirements in relation to these topics based on the information reported by European jurisdictions.

B) European enforcers reviews of IFRS accounting practices

49. Analysis and comparison of accounting practices applied by IFRS issuers allows ESMA to identify developing trends in relation to a specific standard or in certain industries in Europe. ESMA chooses to perform reviews in response to specific market developments, or changes in accounting practices that occur or as a follow-up of previous studies.

50. Such reviews require the creation of dedicated project teams consisting of national experts from European enforcers and ESMA staff. Their work is normally based on publicly available information, but in some cases it can also include elements which were available as part of the review process for certain issuers.

Report on the comparability of IFRS Financial Statements of Financial Institutions in Europe

51. In light of the developments in financial markets, ESMA focused on the financial statements of financial institutions. ESMA has contributed in the previous years to the transparency of financial reporting of financial instruments by issuing public statements relating to sovereign debt exposures and forbearance practices and by publishing extracts of relevant enforcement decisions from the EECS database. The European Banking Authority (EBA) and the European Systemic Risk Board (ESRB) have launched further initiatives to improve the level of confidence in the financial sector by asking financial institutions to provide better disclosure of financial and risk information in financial reporting. ESMA cooperates closely with EBA and ESRB in their efforts to make financial

reporting more transparent and thus contribute to financial stability and investor protection.

52. In 2013, ESMA undertook a review of key areas of IFRS financial statements of listed financial institutions across the EU in order to assess the quality of their disclosures and their comparability. The review focused on the following areas: structure and content of the income statement; liquidity and funding risk; hedging and use of derivatives; credit risk, forbearance practices, non-performing loans and country concentration risk; criteria used to assess impairment of available-for-sale equity securities.

53. The review was based on a sample of 39 large European financial institutions from 16 jurisdictions, mostly consisting of banks that were included in the latest EBA stress-test exercise[15]. This review also considered the application of the 2012 European Common Enforcement Priorities in the area of financial instruments and assessed the effect of ESMA's Public Statement on Forbearance Practices (ESMA/2012/853[16]) on the 2012 IFRS financial statements.

54. In November 2013, ESMA published its report (ESMA/2013/1664[17]) that summarised the findings of the review and provided a set of recommendations for listed financial institutions to consider when preparing their 2013 financial statements. ESMA found that, overall, some financial institutions provided disclosures that were not sufficiently specific, lacked links between quantitative and narrative information or could not be reconciled to the primary financial statements.

55. ESMA also assessed that it was difficult to compare the income statements of the financial institutions given that they had different structures and used different line items. Divergence was also found in the application of the significant or prolonged criteria when assessing impairment of the equity securities classified as available-for-sale. In the area of credit risk, the report pointed out improvements needed in reporting on individual and collective assessment of impairment, forbearance practices and valuation of collateral. Furthermore, in many cases, financial statements did not include sufficient information on the use of derivatives, often lacking the link between their business purpose and the classification in the financial statements.

56. In cases where the findings of the report pointed to a breach in the IFRS requirements and where the breach was considered material, European enforcers took enforcement actions proportionate to the nature of the breach and materiality of the finding. This was the case notably for missing disclosures related to forbearance practices, quantitative disclosures related to individually impaired loans and clarity of accounting policies related to collective impairment. Enforcement actions have also been taken in relation to the disclosure of the application of the significant or prolonged criteria when assessing impairment of the equity securities classified as available-for-sale. Enforcement actions in some cases involved

[15] http://www.eba.europa.eu/risk-analysis-and-data/eu-capital-exercise/final-results
[16] http://www.esma.europa.eu/system/files/2012-853.pdf
[17] http://www.esma.europa.eu/system/files/2013-1664_report_on_comparability_of_ifrs_financial_statements_of_financial_institutions_in_europe.pdf

publication of corrective notes or other public announcement or required correction in future financial statements.

57. As a result of its recommendations in this report, ESMA expects the 2013 financial statements of financial institutions to include: enhanced disclosures of exposures to credit risk, an analysis of specific concentrations of credit risk and a disclosure of impairment policies in order to enable investors to assess the overall credit risk.

58. ESMA also expects financial institutions to provide more granular quantitative information on the effects of forbearance. This would enable investors to assess the level of credit risk related to forborne assets and its impact on the financial position and performance. An increased level of transparency is necessary also in light of the efforts to rebuild confidence in the European banking sector, the ECB's Comprehensive Assessment of the banking sector that includes the Asset Quality Review and that is to be performed before the ECB assumes supervisory responsibilities in November 2014, and the stress test of the European banks that will be performed by the EBA across the whole EU.

C) Coordination of enforcement decisions

59. A key part of ESMA's coordination role lies in analysing and discussing emerging issues and decisions taken by European enforcers in respect of IFRS financial statements. ESMA and European enforcers met nine times during 2013 to discuss emerging issues and decisions submitted by national enforcers. In addition, special meetings were held by ad-hoc working groups on issues which are described in other sections of this report.

60. The emerging issues may refer to cases which are of relevance to other European issuers, are of significant importance to the European regulated markets or have been identified as being widespread. Other emerging issues deal with a variety of situations where enforcers seek guidance and insight from fellow enforcers prior to taking a decision. The discussion at EECS offers an opportunity to benefit from the experience of other enforcers who have already encountered similar issues, and to discuss their analysis of technical issues. When time constraints do not allow waiting until the next EECS meeting, emerging issues are discussed during ad hoc conference call or via emails.

61. ESMA has gained an overview of how IFRSs are applied and the main topics which still pose challenges to IFRS issuers from discussions on emerging issues and decisions. While issuers of financial information have developed significant experience in IFRS accounting over the nine years since the first application of IFRS and improvement has been noted in many areas of application of IFRS, ESMA found that there is still room for improvement in the quality of issuers' financial reporting in certain areas.

62. In 2013, 35 emerging issues and 81 decisions were submitted for discussion in EECS. All emerging issues and the most complex decisions were analysed and discussed in EECS meetings held during the year. The examples presented below reflect those matters that

featured more commonly in EECS discussions in 2013 and where relatively more infringements required corrective action. They reflect subjects which were more contentious and where value is seen in sharing experience and regulatory responses.

63. Discussion at ESMA is intended to raise the level of consistent application and enforcement of the IFRS subject to the specific facts and circumstances pertaining to the decisions under discussion. The examples presented below are not intended to represent all types of issues discussed nor all areas where application of IFRS had been challenged by European enforcers; they are merely illustrative of some of the questions raised most frequently.

64. ESMA regularly discussed issues related to the application of the 2012 Common Enforcement Priorities in IFRS financial statements; in particular, IAS 36 and matters around the impairment testing of goodwill. These issues related mostly to the identification of a cash-generating unit, measurement of the recoverable amount, determination of the discount rate used for the impairment test, and recognition of the impairment loss as well as the sufficiency of disclosures related to the impairment test of goodwill.

65. In 2013, ESMA and national enforcers emphasised the distinction between a change in an accounting policy, a change in accounting estimate and a correction of an error as defined by *IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors*. Given the importance of the issue and its prevalence across Europe, ESMA submitted a letter in June 2013 to the IFRS IC, asking for additional clarification in this respect (ESMA/2013/854[18]).

66. Furthermore, even though the distinction between a change in an accounting policy and correction of an error does not usually have an impact on the measurement of assets and liabilities in the financial statements as both are to be accounted for retrospectively, ESMA believes that the proper distinction between a change in an accounting policy and correction of an error is essential for transparent financial reporting. Finally, ESMA and national enforcers point to the requirements of paragraph 48 of IAS 8 that clearly require distinguishing corrections of errors from changes in accounting estimates.

67. European enforcers identified a number of instances where significant deferred tax assets related to tax losses carried forward were recorded and pointed issuers to the requirements of paragraphs 34 and 35 of IAS 12 - *Income Taxes* that allow recognition of a deferred tax asset in relation to carry forward of unused tax losses only to the extent that there is convincing evidence that sufficient future taxable profits will be available against which the unused tax losses can be utilised. Application of these requirements was discussed mainly in relation to the nature of the convincing evidence that is necessary to allow recognition of the deferred tax assets in these circumstances.

68. EECS discussed a number of issues around the definition of a financial liability in IAS 32 – *Financial Instruments: Presentation* and the timing of its recognition. These related mainly to arrangements with contingent settlement provisions where enforcers pointed out

[18] http://www.esma.europa.eu/system/files/2013-854_esma_letter_to_ias_ic_re_application_of_ias_8.pdf

the requirements of paragraph 25 of IAS 32 that requires recognition of a financial liability of the issuer unless the feature requiring settlement in cash is not genuine or obliges the issuer to settle only in the event of liquidation.

69. European enforcers discussed implementation issues related to the introduction of the new standards IFRS 10 – *Consolidated Financial Statements* and IFRS 11 – *Joint Arrangements*. In respect to IFRS 10, the discussion identified the need to fully consider the effects of the fund manager's (or sponsor's) guarantee of non-negative returns to investors on assessment of the exposure to variability of returns and determine whether the fund manager should consolidate the relevant fund. In relation to IFRS 11, enforcers discussed various implementation issues that were subsequently discussed with the IFRS IC, many of which related to the nature of the other facts and circumstances to be assessed when distinguishing between joint ventures and joint operations.

70. European enforcers encountered several issues related to financial statements presentation, notably relating to the presentation of income statement, discontinued operations and interim financial statements. The issues related to presentation of expenses by function in the income statement, presentation of additional lines, headings and subtotals, presentation of additional statements or additional columns directly within the primary financial statements and issues related to materiality of presentation. The issues related to the application of IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations* included clarification of its scope, classification of assets as held for sale, changes of plan of sale, definition of major lines of business, determination of unit of account and recognition of impairment in certain circumstances.

71. Three broad issues identified in relation to financial statements presentation were submitted to the IFRS IC and IASB to be dealt with either as part of the IFRS IC interpretation process or, more broadly, by the IASB as part of the Disclosure Initiative (see Section V of this report). ESMA welcomes the Disclosure Initiative initiated by the IASB as it believes that it could contribute to better and entity specific disclosures that would more informative and more useful for decision making .

72. By stressing the disclosure requirements in the IFRSs, enforcers required disclosures that are material for understanding of the financial position and performance of the issuers and underlined the need to provide disclosures that are entity specific and not boilerplate.

D) ESMA enforcement database

73. In 2005, to facilitate the sharing of enforcement decisions and experiences, ESMA established an internal database to which European enforcers submit some of the decisions they have taken as part of their national enforcement processes, according to submission criteria specified in the Enforcement standards. The criteria include amongst others: material misstatement, complexity of facts and circumstances and potential to conflict with other decisions taken by European enforcers. In order to achieve consistent enforcement

decisions throughout Europe, European enforcers consult the database before taking significant enforcement decisions. As of 31 December 2013, around 270 emerging issues and more than 700 decisions had been entered into the EECS database.

74. ESMA regularly publishes enforcement decisions to contribute to the convergence of the application of IFRS and the promotion of market confidence. As of 31 December 2013, 161 decisions have been included in a total of 14 publications, with 21 enforcement decisions included in the two extracts from the EECS database published in 2013 (ESMA/2013/444[19] and ESMA/2013/1545[20]). ESMA plans to continue issuing further publications regularly, on a semi-annual basis. Published decisions are also communicated to and included in the database of the International Organization of Securities Commissions (IOSCO).

E) Other activities

75. In addition to discussing decisions and emerging issues, ESMA provides European enforcers with the opportunity to discuss other matters relevant to their enforcement activities and to develop a better understanding of processes and procedures within enforcement authorities across Europe through reviews or working groups.

76. EECS provides enforcers with the means of sharing their national publications with fellow enforcers – e.g. enforcers' Activity Reports and other announcements to national markets on issues relating to the monitoring of IFRS. These papers are regularly presented and discussed during EECS meetings.

European and international co-operation

77. In order to promote a common supervisory culture, ESMA regularly organises educational sessions for the use of European enforcers. In November 2013, ESMA organised a cross-sectoral seminar on European enforcement featuring representatives from EBA, EIOPA and the IASB. The aim of the seminar was to present enforcement activities, explain the challenges faced by enforcers and the importance of consistency of application of IFRS for securities and prudential supervisors at European level.

78. As part of the common objectives of promoting high quality and consistent application of financial reporting standards and avoiding conflicting regulatory decisions on the application of both IFRS and US GAAP, ESMA and the US SEC considered important to cooperate and have regular dialogue. Since 2006, the two parties have met regularly to discuss areas of common interest or concern, such as: standards subject to convergence, enforcement related issues, accounting areas of concern in relation to foreign private issuers and other matters related to issuers or market behaviour.

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[19] http://www.esma.europa.eu/system/files/2013-444.pdf
[20] http://www.esma.europa.eu/system/files/2013-1545_14th_extract_from_the_eecs_database_of_enforcement.pdf

79. With more and more countries adopting IFRS, ESMA has initiated contact with other IFRS enforcers across the world with the aim of exchanging practical experience on IFRS enforcement. To this end, in June 2013, ESMA organised a meeting on the global consistent application of IFRS with representatives of authorities from a wide range of countries: Australia, Brazil, Canada, Hong Kong, Japan, South Africa, Switzerland and the United States and representatives from the IASB. Participants discussed the necessary steps for consistent application of IFRS and identified the most common enforcement issues they were facing. They also raised common issues of concern such as IFRS issues for financial institutions, disclosure overload, post-implementation reviews and the role of judgement and comparability between financial statements.

Other ESMA publications and work streams

80. In February 2013, following the publication of a consultation paper entitled *Considerations of Materiality in Financial Reporting* (ESMA/2011/373[21]) of November 2011 and the hosting of a public roundtable on materiality in financial reporting in late 2012, ESMA published a Feedback Statement (ESMA/2013/218[22]) which provided an overview of the key messages from the responses received to the questions in the consultation paper and from participants at the roundtable. The findings were presented to the IASB and the IAASB and ESMA has engaged with the IASB on their subsequent broad-based initiative to explore how disclosures in IFRS financial reporting can be improved, notably in relation to the application of the materiality concept.

81. As enforcers found strong diversity in the use of Alternative Performance Measures (APMs) in Europe, ESMA has developed draft guidelines on APMs building on the existing 2005 CESR Recommendation. The consultation paper was published with a three month comment period in February 2014 (ESMA/2014/175[23]). ESMA will consider the feedback it receives to this consultation in 2014.

82. As required by the amended Transparency Directive, published in 2013, ESMA has to prepare regulatory technical standards with respect to the specification of the European single electronic reporting format and the operation of a central access point for regulated information at European Union level. The timeline for these projects is spread over several years, but ESMA has already launched the preparatory work in 2013 by setting up specialised working groups.

83. In 2013, the co-legislators discussed the proposal for a regulation on the quality of audit of public-interest entities and for a directive to enhance the single market for statutory audits. The proposed legislation brings significant changes to the European audit regulation, including giving ESMA responsibilities related to the technical assessment of public oversight systems of third countries and to the international cooperation between EU audit

[21] http://www.esma.europa.eu/system/files/2011_373_.pdf
[22] http://www.esma.europa.eu/system/files/2013-218.pdf
[23] http://www.esma.europa.eu/system/files/esma-2014-175_cp_on_the_draft_guidelines_on_apms.pdf

oversight authorities and third countries.

IV OVERVIEW OF EUROPEAN ENFORCER'S ACTIVITIES

84. This section provides a description of the enforcement process undertaken by European enforcers as part of their function of direct supervision of listed issuers and main indicators for the 2013 enforcement activity.

Description of the enforcement process

85. As previously mentioned, supervisory and enforcement activities are carried out at national level. Nevertheless, matters such as the selection of issuers under review, types of review of financial information and enforcement actions, where necessary, constitute elements which are part of the coordination process at European level.

86. Enforcers select issuers to review based on a combination of a risk approach and either random sampling, or rotation, or both. Risk determination is based on a combination of the probability of infringements and the impact of a potentially significant infringement on the financial markets. Characteristics such as the complexity of financial statements, the risk profile of the issuer, the experience of the management and auditors are also considered.

87. A review of a set of financial statements refers to the process of analysing financial information for compliance with the requirements of the relevant reporting framework. Such a review may cover a company's full set of financial statements and take the form of a review over all areas or be limited to certain areas in a partial review.

88. Partial reviews may be prompted by a number of considerations including: indications of an incorrect application of IFRS and known areas of non-compliance by issuers in previous years, first time application of new standards or areas of particular focus given economic or trading conditions.

89. Enforcers have a range of corrective and other actions, depending on national law, that they may take in respect of infringements of relevant reporting requirements detected as part of the review of the interim or annual financial statements. Where potential infringements of the reporting framework are identified, they are brought to the attention of the issuer. Following exchanges of correspondence and/or meetings with the issuer in which the enforcer may ask for additional information or explanation, the enforcer decides whether the treatment adopted by the issuer complies with the IFRS. After taking into account the materiality of the issue, the enforcer might conclude that the treatment is not acceptable. The case will result in one or more of the following enforcement actions.

90. If the infringement is considered material, the following range of actions are available

depending on national law in the enforcer's jurisdiction:

- *Issuance of revised financial statements accompanied by a new audit opinion (where applicable)* - this action entails the withdrawal of the original accounts and the issuance of revised financial statements which are subject to a new audit opinion;
- *Public corrective note or other type of communication to the public* - this may mean a press release either by the issuer or the enforcer informing the market of the error and the effect of the corrective action in advance of the issuance of the next annual or interim financial statements; or
- *Correction in the next financial statements* - the issuer adopts an acceptable treatment in the next accounts and corrects the prior year by restating the comparative amounts through applying IAS 8 or otherwise includes additional disclosures not requiring the restatement of comparatives.

91. In other cases, the enforcer could send a notification to the issuer in relation to the departure from the financial reporting framework, but usually this notification is not made public. This or similar administrative tools are used when the issue identified has the potential to become material in the future financial statements, its correction could contribute to improvements in the quality and understandability of the financial statements, or when a material issue has already been corrected by the issuer in the following financial statements or other public announcement by the time the enforcement action could have been taken. Notifications are used also in situations when an enforcer suggests replacing or deleting disclosures that are no longer material in the financial statements under review.

92. European enforcers also seek to improve the quality of future financial statements, by engaging in activities designed to provide helpful guidance to issuers in advance of the preparation of their financial information. Example of such activities include:

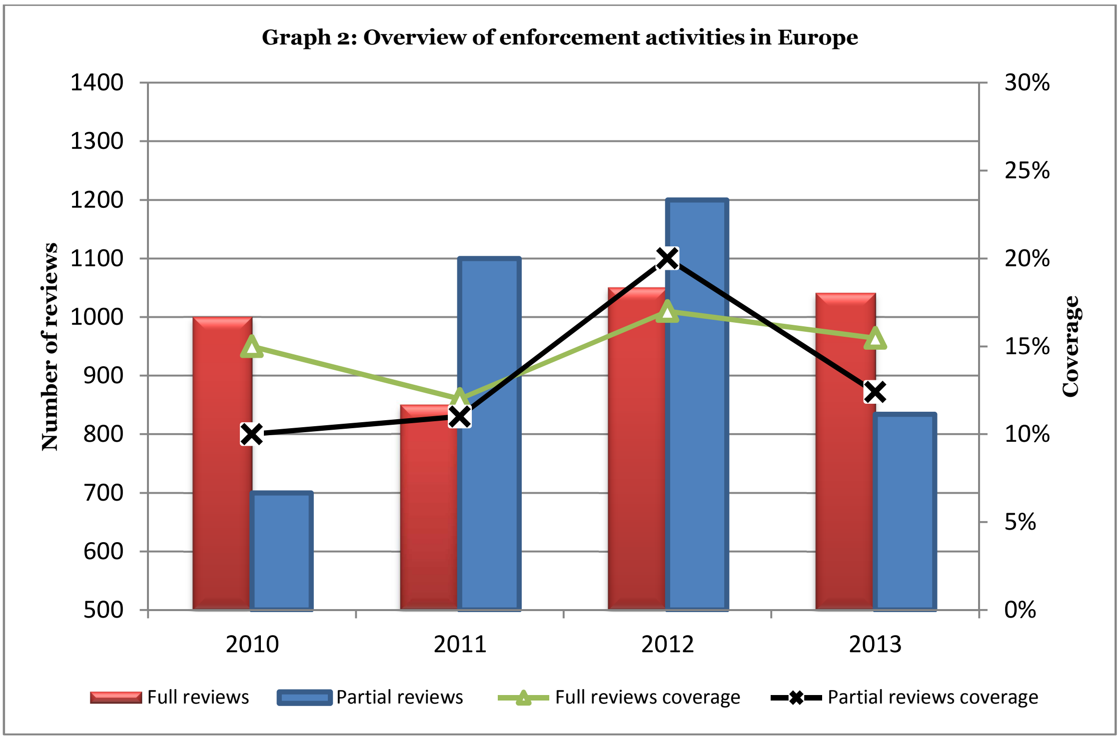
- *Issuance of alerts indicating the main areas of examination* - many European enforcers announce their main areas of focus for the next reporting period, or preliminary findings of the current examinations, ahead of the next reporting period in order to enable issuers to consider these in preparation of their financial statements. Since 2012, these are coordinated together with the publication of the European Common Enforcement Priorities, which is published by ESMA (please refer to section III.A)
- *Pre-clearance* - in some jurisdictions, issuers may approach the local enforcer in advance of the finalisation of their accounts and seek a formal decision/advice on whether a proposed accounting treatment is IFRS compliant. The process may differ between countries but it usually takes the form of a comprehensive description of the specific facts and circumstances submitted to the enforcer in writing. The issuer generally provides a detailed analysis of the technical options and/or interpretations, and a rationale supporting his view. The process provides an opportunity to the enforcer to give advice to the issuer in advance of the finalisation of the accounts.

Main indicators of IFRS enforcement activity in 2013

93. In order to monitor the level of enforcement activity, ESMA collects statistics in relation to the main indicators dealing with the number of reviews performed and the number of actions taken by the European enforcers.

94. In 2013, European enforcers performed full reviews of around 1050 interim and annual IFRS financial statements covering around 14 % of listed entities accounts in Europe. In addition, around 850 financial statements were subject to partial review, representing coverage of 11 % of the population of listed entities. The number of partial reviews in 2011 and 2012 seems to be influenced by the effects of the financial crisis and notably the attention of the enforcers on particular areas in the financial statements.

Graph 2 provides an overview of development of the number of reviews and coverage[24] since 2010:



95. The coverage of full and partial reviews varies significantly from one country to another because of the diversity in the number of issuers per jurisdiction and in the level of complexity of their financial statements.

[24] Coverage is calculated as number of reviews performed divided by the number of listed entities.

96. Enforcement actions taken by enforcers in 2010 - 2013 as a result of their reviews were as follows:

Number of actions by type requiring:	2010	2011	2012	2013
Issuance of revised financial statements	22	18	35	18
Public corrective notes or other public announcement	220	151	167	152
Corrections in future financial statements	380	427	305	324
Total	**622**	**596**	**507**	**494**

The number of enforcement actions taken in individual jurisdictions varies on the basis of the size and complexity of the capital market, number and type of issuers that have securities admitted to trading on a regulated market and the regime in which the national enforcer operates as defined by the national law in these specific jurisdictions.

The table below provides descriptive statistics related to the number of enforcement actions taken by European enforcers in individual jurisdictions across Europe:

Descriptive statistics on number of actions taken:	2010	2011	2012	2013
Mean	22.2	21.3	18.1	17.6
Median	15.0	11.5	16.5	9.0
Standard deviation	25.7	30.7	18.6	27.7

97. Enforcers in some jurisdictions also took approximately 300 other actions that do not require any corrective action or public announcement. These might include a notice to the issuer or other administrative action based on the national law.

V ESMA'S CONTRIBUTION TO THE STANDARD SETTING PROCESS

98. An important feature of the use of IFRS in Europe as well as worldwide is the need of ensuring that enforcers have a regular dialogue with the standard setter, the IASB.

Co-operation with the IASB and IFRS IC

99. As part of its contribution to the set-up of high quality standards and based on its role of coordination of the enforcement activities of the biggest financial area using IFRS, ESMA maintains regular active dialogue with the IASB and the IFRS IC. ESMA provides the securities regulators' views in relation to enforceability of the proposed standards and ensures that investors' needs are considered by consulting them when needed.

100. An ESMA permanent working group, the IFRS Project Group, gathers IFRS experts from 12 European enforcers and ESMA staff and meets regularly to discuss developments in

IFRS. In 2013, ESMA provided 15 comment letters[25] to almost all exposure drafts (EDs) and other pieces of work open for consultation by the IASB and the IFRS IC, including the ED on limited amendments to the classification and measurement requirements in IFRS 9 – *Financial Instruments,* the EDs *Expected Credit Losses*, *Leases*, *Insurance Contracts* and the Discussion Paper - *A Review of the Conceptual Framework for Financial Reporting*.

101. In 2013, EECS met with IFRS IC representatives in order to discuss complex issues identified by European enforcers for which either there is no specific IFRS guidance or where widely diverging interpretations appeared to exist. Among others, the following accounting subjects were discussed:

- Accounting for contingent convertible instruments
- Implementation issues related to IFRS 11
- Measurement and disclosure of uncertain tax positions
- Recognition of an obligation for restructuring in the context of classification of financial assets as held for sale.

102. The meetings also gave enforcers the opportunity to provide the IFRS IC with feedback on how standards are being applied in practice and to indicate where there might be a degree of uncertainty as to how they are being interpreted. In addition, as part of stakeholders' responses outreach requests made by the IFRS IC, ESMA provides an overview on the relevant practices applied by issuers in the EEA.

103. While not an official observer to the IFRS IC, ESMA significantly contributed to the IFRS IC meetings by submitting letters which topics were included on the IFRS IC agenda for discussion pointing out to areas where European enforcers identified that lack of guidance from standards might have contributed to the divergent application of IFRSs, such as the letters on:
   - application of IAS 28 – *Investments in Associates and Joint Ventures* on elimination of intercompany profits between an issuer and its joint venture (ESMA/2013/9[26]);
   - accounting for a change in the method of disposal related to classification and presentation of discontinued operation under IFRS 5 (ESMA/2013/244[27]);
   - request for amendment to IAS 19 – *Employee Benefits* in relation to the regional market issue (ESMA/2013/815[28]);
   - application of IAS 8 when distinguishing between a change in an accounting estimate and a change in an accounting policy (ESMA/2013/854[29]);
   - enforceability issues related to presentation of income statement (ESMA/2013/1555[30]);

[25] http://www.esma.europa.eu/page/Comment-letters
[26] http://www.esma.europa.eu/system/files/2013-9.pdf
[27] http://www.esma.europa.eu/system/files/2013-244.pdf
[28] http://www.esma.europa.eu/system/files/2013-815_letter_amendment_to_ias_19_employee_benefits.pdf
[29] http://www.esma.europa.eu/system/files/2013-854_esma_letter_to_ias_ic_re_application_of_ias_8.pdf
[30] http://www.esma.europa.eu/system/files/2013-1555_esma_comment_letter_to_the_ifrs_ic_on_application_of_ias_1.pdf

- enforceability issues related to classification and presentation of non-current assets held for sale and discontinued operations (ESMA/2013/1773[31]);
- presentation of interim condensed statement of cash flows (ESMA/2013/1554[32]);
- classification and measurement of core inventories (ESMA/2013/1774[33]).

104. On the basis of discussion of these letters, the IFRS IC either proposed amendments to the IFRSs, clarifications of the requirements as part of the Annual Improvements or recommended the issues to be considered in broader projects such as the Disclosure Initiative.

105. In 2013, ESMA also had an additional bilateral meeting in which it provided the IASB Board members with a detailed presentation of the recent enforcement activities, discussed matters in relation to enforceability of new standards developed by the IASB and areas identified as part of the reviews of accounting practices undertaken by ESMA.

106. ESMA intends to further strengthen its contribution to the IASB standard setting process by engaging actively in future IASB activities in order to ensure that European enforcers and investors views are communicated and considered as part of the overall activities undertaken by the standard setter.

Contribution to the European endorsement process

107. In 2013, ESMA continued to actively contribute to the European endorsement process by participating as official observer in the ARC, in EFRAG and its working groups. ESMA provided 15 comment letters[34] to EFRAG commenting on the draft EFRAG comment letters and other pieces of work open for consultation.

108. In March 2013 the EU Commissioner for Internal Market and Services mandated Philippe Maystadt to examine ways of reinforcing the EU's contribution to IFRS and improving the governance of the European bodies involved in developing these standards. ESMA has been following closely these discussions that resulted in the publication of the Maystadt Report – '*Should IFRS standards be more European?*[35]'. In its final version, the Maystadt Report favoured the option which envisaged changes in the governance of EFRAG, the body currently in charge with providing advice to the EC.

109. ESMA commented on those proposals (ESMA/2013/1415[36]) by welcoming the continued commitment to the use of IFRS, as the right approach in the context of global markets. ESMA indicated that the recommendations for the body to be intrusted with providing

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[31] http://www.esma.europa.eu/system/files/2013-1773_esma_letter_to_the_ifrs_ic_-_ifrs_5_package.pdf
[32] http://www.esma.europa.eu/system/files/20131554_esma_comment_letter_to_ifrs_interpretations_committee_on-_application_of_ias_34.pdf
[33] http://www.esma.europa.eu/system/files/2013-1774_esma_letter_to_ifrs_ic_on_application_of_ias_2_and_16.pdf
[34] http://www.esma.europa.eu/page/Comment-letters
[35] http://ec.europa.eu/internal_market/accounting/docs/governance/reform/131112_report_en.pdf
[36] http://www.esma.europa.eu/system/files/2013-1415_letter_esma_comments_to_maystadt_report.pdf

IFRS endorsement advice to the EC, were insufficient as they were limited to partial changes to EFRAG governance, and may hamper the European public interest. On that basis, ESMA recommended a more active involvement of the European Supervisory Authorities (ESAs) in the endorsement process.

110. The Maystadt Report suggested that the three ESAs as well as the ECB are full members of the EFRAG Supervisory Board. In January 2014, the three ESA's submitted a letter to the EC (ESA/2014/1[37]), voicing serious concerns regarding the proposed voting model in the new EFRAG Board and announcing that in absence of changes to the proposed model they would refrain from accepting membership but ask for an observer status in the new EFRAG Supervisory Board.

111. Following the presentation of the report in the ECOFIN Council, the EC will implement in 2014 the recommended measures in order to reinforce the EU's contribution to IFRS. Implementation of the envisaged changes related to the governance of the institutional system related to the endorsement of IFRS in Europe is expected later in 2014. On that basis, ESMA's role in the endorsement process might change in 2014.

[37] http://www.esma.europa.eu/system/files/esa-2014-001_esas_response_to_the_maystadt_report.pdf

Appendix – List of European enforcers

Member State	European Enforcer	Abbreviation
Austria	Financial Market Authority[38] Austrian Review Panel for Financial Reporting	FMA OePr
Belgium	Financial Services and Markets Authority	FSMA
Bulgaria	Financial Supervision Commission	FSC
Croatia	Croatian Financial Services Supervisory Agency	HANFA
Cyprus	Cyprus Securities and Exchange Commission	CySEC
Czech Republic	Czech National Bank	CNB
Denmark	Danish Financial Services Authority Danish Business Authority	Danish FSA DBA
Estonia	Estonian Financial Supervision Authority	EFSA
Finland	Finnish Financial Supervisory Authority	FIN-FSA
France	Financial Markets Authority	AMF
Germany	German Federal Financial Supervisory Authority Financial Reporting Enforcement Panel	BaFin FREP
Greece	Hellenic Capital Market Commission	HCMC
Hungary	The Central Bank of Hungary[39]	MNB
Ireland	Central Bank of Ireland Irish Auditing and Accounting Supervisory Authority	CBI IAASA
Iceland	Financial Supervisory Authority	FME
Italy	Companies and Securities National Commission	Consob
Latvia	Financial and Capital Markets Commission	FCMC
Lithuania	Bank of Lithuania	LB
Luxembourg	Financial Markets Supervisory Commission	CSSF
Malta	Malta Financial Services Authority	MFSA
Netherlands	Netherlands Authority for the Financial Markets	AFM
Norway	Norway Financial Supervisory Authority	NFSA
Poland	Polish Financial Supervision Authority	PFSA
Portugal	Securities National Commission Bank of Portugal Insurance Portugal Institute	CMVM BP ISP
Romania	Financial Supervisory Authority[40]	ASF
Slovakia	National Bank of Slovakia	NBS
Slovenia	Securities Market Agency	SMA
Spain	Spanish Securities Market Commission	CNMV
Sweden	Swedish Financial Supervisory Authority The Nordic Growth Market Nasdaq OMX Stockholm	Swedish FSA NGM AB Nasdaq OMX
United Kingdom	Financial Conduct Authority[41] Financial Reporting Council[42]	FCA FRC

[38] The FMA set-up their enforcement activities starting with 1 July 2013 together with the newly established OePr
[39] The Central Bank of Hungary became enforcer following its merger with the Hungarian Financial Supervisory Authority in October 2013
[40] The Romanian National Securities Commission was transformed and merged into Financial Supervisory Authority in May 2013
[41] The Financial Services Authority was transformed into Financial Conduct Authority in April 2013
[42] Following the reform of the FRC, the Financial Reporting Review Panel became part of the FRC