Report

Enforcement and regulatory activities of European enforcers in 2020

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Abbreviations and acronyms

APM	Alternative Performance Measure
CEAOB	Committee of European Auditing Oversight Bodies
CESR	Committee of European Securities Regulators
Commission	European Commission
COVID-19	Coronavirus Disease 2019
DTA	Deferred Tax Asset
EBA	Eurpean Banking Authority
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
EIOPA	European Insurance and Occupational Pensions Authority
ECEP	European Common Enforcement Priorities
ECL	Expected Credit Loss
ED	Exposure Draft
EEA	European Economic Area
EECS	European Enforcers Coordination Session
EFRAG	European Financial Reporting Advisory Group
EFRAG TEG	European Financial Reporting Advisory Group Technical Expert Group
ESEF	European Single Electronic Format
ESG	Environmental, Social and Governance
ESMA	European Securities and Market Authority
EU	European Union
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product

GLEFI	Guidelines on the Enforcement of Financial Information
GLEIF	Global Legal Entity Identifier Foundation
GRI	Global Reporting Initiative
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
IPO	Initial Public Offering
ISA	International Standards on Auditing
ITCG	IFRS Taxonomy Consultative Group
KPI	Key Performance Indicator
POCI	Purchased or Originated Credit Impaired
Q&A	Questions and Answers
RTS	Regulatory Technical Standards
SSB	Sustainability Standards Board
US SEC	United States Securities and Exchange Commission
XBRL	Extensible Business Reporting Language

Legislative references

Accounting Directive	Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings (as amended)
Audit Regulation	Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC
ESEF Regulation	Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (as amended)
ESMA Regulation	Regulation (EU) No 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 (as amended)
Global Data Protection Regulation / GDPR	Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/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
Prospectus Regulation	Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC (as amended)

Non-Financial Reporting Directive / NFRD	Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups
Sustainable Finance Disclosure Regulation / SFDR	Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector
Taxonomy Regulation	Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088
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 (as amended)

1 Executive summary

This report provides an overview of the activities of ESMA and of accounting enforcers in the European Economic Area (EEA), hereafter European enforcers, when examining compliance of financial and non-financial information provided by issuers in 2020.[1] It furthermore presents the main activities contributing to supervisory convergence performed at European level, quantitative information on enforcement activities in Europe as well as ESMA's contribution to the development of a single rulebook in the area of corporate reporting.

Supervisory convergence

Enforcement of financial statements in 2020

Enforcers undertook 729 examinations (810 in 2019) of financial statements drawn up in accordance with International Financial Reporting Standards (IFRS), constituting an examination rate of 17% of issuers listed on European regulated markets preparing financial statements in accordance with IFRS (the 2019 examination rate was 19%).

Of the 729 examinations undertaken, 689 were undertaken as ex-post examinations (767 in 2019) and, based on these examinations, European enforcers took enforcement actions against 265 issuers (253 in 2019) in order to address material departures from IFRS. This represents an action rate of 38% (the 2019 action rate was 33%). As in the past, most shortcomings were identified in the areas of accounting for financial instruments, impairment of non-financial assets, presentation of financial statements and revenue recognition.

In order to assess the extent to which issuers took into account ESMA's European Common Enforcement Priorities (ECEP) for 2019 year-end IFRS financial statements, during 2020 European enforcers examined whether a sample of 101 issuers complied with the aspects highlighted in the ECEP. These examinations led to 18 enforcement actions being taken in relation to the 2019 enforcement priorities regarding the application of IFRS 16.

As in previous years, in order to ensure supervisory convergence in the area of accounting enforcement, European enforcers submitted a high number of issues to the European Enforcers Coordination Sessions (EECS) during 2020 – 45 emerging issues and 47 decisions.

Enforcement of non-financial statements in 2020

In 2020, European enforcers examined 737 issuers (904 in 2019) for the purpose of assessing the disclosures in the non-financial statements prepared in accordance with Articles 19a and 29a of the Accounting Directive, representing 37% of the total estimated number of issuers required to publish a non-financial statement (45% in 2019). In case of infringements, enforcers followed up with issuers either by taking actions within the meaning of ESMA's Guidelines on Enforcement

[1] Since the United Kingdom withdrew from the EU on 1 February 2020, all data presented in the report (including the comparative information for previous years) do not include issuers from the United Kingdom.

of Financial Information (39) or by undertaking other measures (3) which represents an action rate of 5% (10% in 2019).

Enforcers furthermore assessed the extent to which European issuers had taken account of ESMA's considerations on non-financial disclosures in the 2019 ECEP Statement (notably relating to disclosures of non-financial key-performance indicators, environmental and climate change related matters, and general aspects such as materiality, completeness and accessibility of the information in the disclosures). To this end, the non-financial statements of 118 issuers were examined, leading to enforcement actions towards issuers who did not comply with the requirements highlighted in the ECEP Statement relating to 54 infringements.

Enforcement of alternative performance measures in 2020

Regarding alternative performance measures (APMs), European enforcers examined 611 management reports to assess compliance with ESMA's APM Guidelines, representing 14% of all IFRS listed issuers in Europe. Based on these examinations, enforcement actions were taken in relation to 93 issuers, constituting an action rate of 15%.

2020 Statement on the European Common Enforcement Priorities

As in previous years, ESMA together with European enforcers identified a set of European Common Enforcement Priorities for European issuers' 2020 year-end IFRS financial statements. European enforcers will include the ECEP in their supervisory practices when they conduct examinations of financial statements during 2021. The 2020 ECEP focus on the need to provide adequate transparency regarding the consequences of the COVID-19 pandemic. With regard to financial reporting the 2020 ECEP relate in particular to the application of IAS 1 *Presentation of Financial Statements*, IAS 36 *Impairment of Assets*, IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures* and IFRS 16 *Leases*.

The 2020 ECEP Statement also contains a number of considerations related to disclosures in non-financial statements. These address both the pervasive impact of the COVID-19 pandemic on all non-financial matters and specific topics, such as social and employee matters, business model and value creation. The focus is also on risks relating to climate change.

Lastly, the ECEP Statement sets out considerations on the impact that the COVID-19 pandemic may have on APMs disclosed by issuers, on the implementation of the European Single Electronic Format (ESEF) and on the importance of disclosures analysing the potential impact of the United Kingdom's departure from the European Union.

Other activities related to supervisory convergence

In addition to the recurring activities summarised above, ESMA undertook a number of other activities during 2020 to promote supervisory convergence in the area of corporate reporting. These included in particular issuing a number of Public Statements related to COVID-19 implications on financial reporting, conducting a fact-finding exercise focussing on the disclosures provided in half-yearly financial statements and management reports to assess the impact of the COVID-19 pandemic, and carrying out a Fast Track Peer Review regarding the events leading to the collapse of the German fintech company Wirecard.

Single rulebook

Over the course of 2020, ESMA continued to actively participate in the accounting standard-setting process by providing the views of European enforcers on all relevant projects of the International Accounting Standards Board (IASB) and by contributing to the discussions in the Board and Technical Expert Group (TEG) of the European Financial Reporting Advisory Group (EFRAG). As part of these activities, ESMA provided feedback on EFRAG's draft comment letters addressing the IASB exposure drafts and the IASB discussion paper *Business Combinations – Disclosures, Goodwill and Impairment*. Furthermore, ESMA submitted agenda item requests to the IFRS Interpretations Committee (IFRS IC) in relation to issues where ESMA identified diversity in application of the accounting standards and provided comments on the IFRS IC's tentative agenda decision relating to the accounting treatment of reverse factoring arrangements.

ESMA also undertook a number of activities in the area of electronic reporting by delivering a technical update to its previous regulatory technical standards on the ESEF, updating the XBRL taxonomy files to be used for ESEF, publishing an update to ESMA's ESEF Reporting Manual, publishing two versions of Conformance Suite test files and supporting the Global Legal Entity Identifier Foundation (GLEIF) in the preparation of its 2019 annual financial report in electronic format.

As in previous years, ESMA supported the establishment of a single rulebook in relation to issuers' disclosure of non-financial information. ESMA responded to the Consultation Paper on Sustainability Reporting published by the IFRS Foundation welcoming the initiative of the IFRS Foundation to consider establishing a Sustainability Standards Board (SSB) and outlining principles which in ESMA's view are to be taken into account when establishing a standard-setter in this area. Moreover, ESMA contributed to European Commission's consultations on the review of the Non-Financial Reporting Directive (NFRD) and on the Commission's Renewed Sustainable Finance Strategy. In addition, in response to the Commission's call for advice related to certain aspects of a delegated act to supplement the obligations under Article 8 of the Taxonomy Regulation, ESMA conducted outreach with shareholders and published a consultation paper with a draft advice. The consultation paper included proposals on KPIs related to environmentally sustainable activities of non-financial undertakings and proposals regarding the information that asset managers subject to the NFRD should disclose in connection with the funding of environmentally sustainable economic activities.

Lastly, ESMA undertook work related to the Audit Regulation, notably through its membership of the Committee of European Audit Oversight Bodies (CEAOB).

Work programme for 2021

In 2021, ESMA will continue working with European enforcers to ensure supervisory convergence in the area of corporate reporting paying particular attention to the implications of the COVID-19 pandemic and consistent enforcement of the new standards (IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*). This will entail, among other activities, identifying ECEP for 2021 year-end IFRS financial statements, organising discussions among European enforcers on the enforcement of financial and non-financial statements, monitoring the market's developments in relation to APMs in light of COVID-19, observing the work of the EFRAG Corporate Reporting Lab regarding non-financial reporting, addressing any implementation issues which arise from the RTS and Reporting Manual on the ESEF.

Moreover, ESMA will maintain its contribution to the development of accounting standards of a high quality through its participation in the EFRAG Board and TEG and the submission of comment letters to relevant consultations of the IASB and EFRAG. ESMA will monitor developments and provide advice to the Commission on any potential review of the Transparency Directive requirements relating to periodic reporting. Furthermore, ESMA will continue to contribute to the work of the IFRS Advisory Council and the IFRS Taxonomy Consultative Group (ITCG) as well as to the work of the CEAOB in relation to audit.

2 Introduction

1. This report provides an overview of the activities related to the supervision and enforcement of financial reports which was carried out during 2020 by national enforcers in the European Economic Area (EEA – hereafter referred to as European enforcers)[2] and by ESMA. The report does not include activities related to issuers in the United Kingdom, which left the EU on 1 February 2020. To ensure comparability, all prior year figures were adjusted accordingly.

2. The report furthermore describes ESMA's work in the area of creating a single rulebook in the area of corporate reporting, such as its contribution to the European endorsement of International Financial Reporting Standards (IFRS) and its interaction with the International Accounting Standards Board (IASB), as well as other relevant activities on corporate reporting.

3. ESMA observes that the report mainly focuses on enforcement and regulatory activities related to issuers whose securities are admitted to trading on regulated markets (referred to as listed issuers for the remainder of the report), with a specific focus on issuers preparing their financial statements using IFRS. As such, the report does not cover all enforcement and regulatory activities undertaken by European enforcers.

4. The report is addressed to all stakeholders, including European issuers, investors, auditors, regulators and the general public.

3 Supervisory convergence activities

5. Promoting harmonised enforcement of IFRS remains a key area of activity for European enforcers. This chapter describes the main activities carried out by enforcers and by ESMA in this regard during 2020 and furthermore presents the activities which ESMA has planned for the year of 2021. Additionally, Annex 1 sets out a description of the main features of the European system for enforcement of financial reporting with specific references to ESMA's Guidelines on Enforcement of Financial Information.[3]

3.1 Assessment of compliance with 2019 ECEP Statement

6. Establishing European Common Enforcement Priorities (ECEP) is one of the important ways of creating supervisory convergence across the EEA. ESMA has developed ECEP on an annual basis since 2012 and has found that communicating certain priorities to stakeholders before annual financial statements are prepared contributes to preventing misstatements and to enhancing the quality and consistency of corporate reporting across

[2] Please refer to Annex 2 for a list of the European enforcers.
[3] ESMA/2014/1293 Guidelines – *ESMA Guidelines on enforcement of financial information*, 28 October 2014.

the EEA. ESMA published the priorities to be taken into account in the preparation of 2019 annual financial statements in October 2019 (hereafter referred to as the 2019 ECEP Statement).[4]

7. In the following, the extent to which issuers followed the 2019 ECEP relating to financial statements drawn up in accordance with IFRS is analysed in section 3.1.1, while the results of a follow-up on the topics relating to the non-financial statement to be disclosed under Directive 2013/34/EU (the Accounting Directive) is addressed in section 3.1.2.

3.1.1 2019 ECEP relating to IFRS annual financial statements

8. The 2019 ECEP Statement included a number of priorities related to annual financial statements drawn up in accordance with IFRS, namely specific issues related to the application of IFRS 16 *Leases*, specific issues related to the application of IAS 12 *Income Taxes* (including application of IFRIC 23 *Uncertainty over Income Tax Treatments,* Amendments to IAS 12 stemming from the *2015-2017 Annual Improvements* and disclosure of deferred tax assets arising from carry-forward of unused tax losses) and follow-up of specific issues related to the application of IFRS 9 *Financial Instruments* for credit institutions and IFRS 15 *Revenue from Contracts with Customers* for corporate issuers.

9. In order to analyse how the 2019 ECEP were applied, European enforcers examined the annual financial statements of a sample of 101 issuers from 27 EEA countries. Issuers in the sample were not selected via random sampling, and the findings in the sections below should therefore not be extrapolated to the wider population of listed issuers in the EEA.

10. Please note that, for each question, issuers for which a given topic was not applicable were removed from the sample for the purpose of calculating the percentages presented. Therefore, all findings in the following sections refer to the sub-sample of issuers for whom a given topic was relevant.

3.1.1.1 Application of IFRS 16

11. In order to assess application of IFRS requirements highlighted in the 2019 ECEP Statement on IFRS 16, during 2020 European enforcers examined the annual financial statements of 84 issuers with a material amount of leases within the scope of IFRS 16, the vast majority of which adopted IFRS 16 for the first time on 1 January 2019. Only a few issuers (4%) adopted IFRS 16 at an earlier date.

12. Information about the sector and market capitalisation of the issuers in the sample is presented in the graphs below.

[4] ESMA32-63-791 Public Statement – *European common enforcement priorities for 2019 annual financial reports*, 22 October 2019.

***Figure 1:** Sample of issuers by sector of activity*

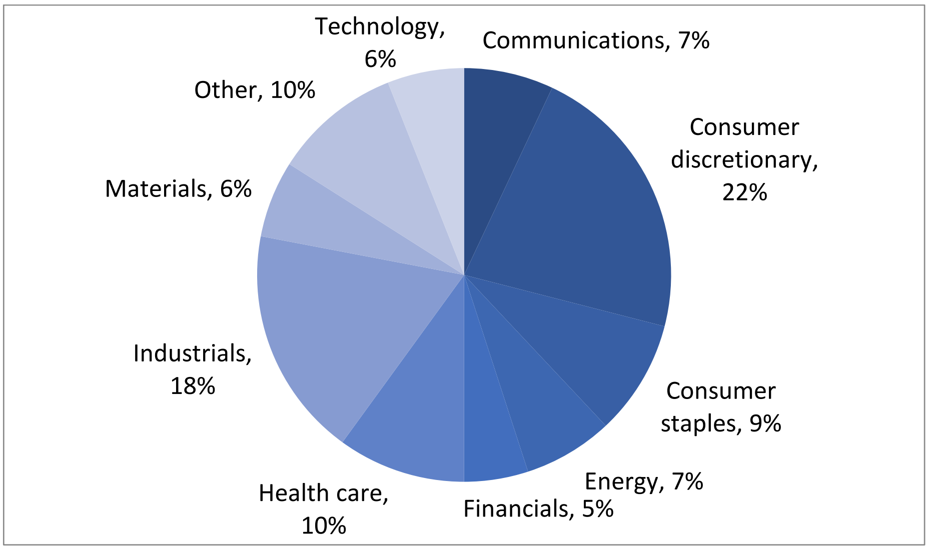
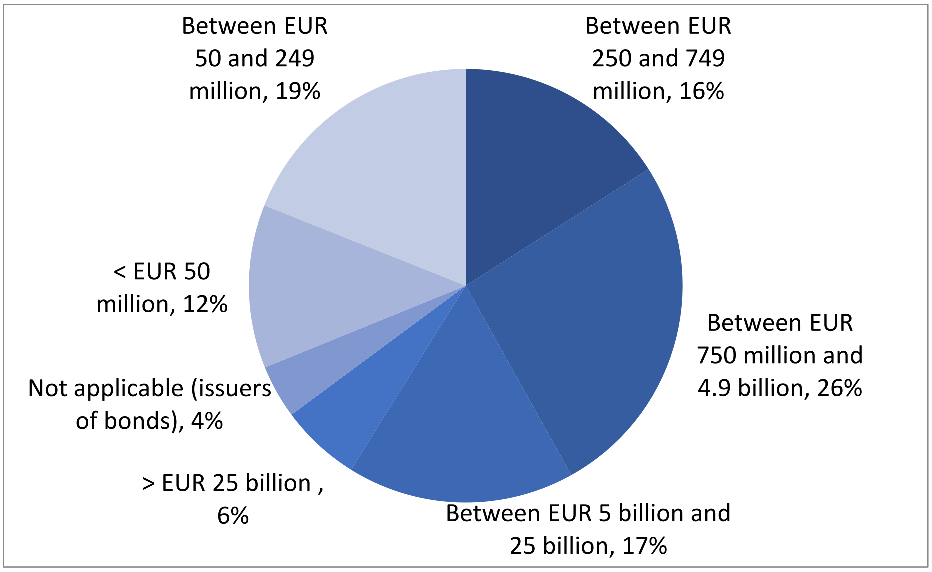


***Figure 2:** Sample of issuers by market capitalisation*



Analysis of information provided

Transition disclosure

13. Among the issuers who adopted IFRS 16 for the first time in the examined financial statements, 95% applied the modified retrospective approach. Only a few issuers (5%) elected to apply the full retrospective approach.

14. Among the issuers in the sample who applied the modified retrospective approach, 83% provided sufficient and entity-specific disclosures of the information required by paragraph C12(a) of IFRS 16 regarding the incremental borrowing rate applied to lease labilities recognised at the date of the initial application. Information provided by 13% of issuers was insufficient or not entity-specific as, for example, they provided only qualitative information

not disclosing the applied interest rate in quantitative form. A small number of issuers (4%) did not provide required information.

15. ESMA notes that 92% of issuers who elected the modified retrospective approach explained differences between the operating lease commitments disclosed when applying IAS 17 and the lease liabilities recognised under IFRS 16. Furthermore, the same high percentage of issuers disclosed which practical expedients set out in paragraph C10 of IFRS 16 they used. More specifically, two thirds of those issuers indicated that they elected not to apply the requirements in paragraph C8 to leases for which the lease term ends within 12 months of the date of initial application, while other practical expedients of paragraph C10 were applied by fewer issuers (between one third and one half of issuers took advantage of at least one expedient).

16. ESMA observes that 75% of all issuers for whom it was relevant disclosed the qualitative transition impact on their accounting policies. A further 16% provided a partial disclosure, by not disclosing, for example (when it was relevant), a specific analysis related to the assessment of whether the contract contains a lease and service component booked separately.

17. Looking at the information disclosed regarding the quantitative transition impact on issuers' financial position, ESMA notes that two thirds of issuers disclosed the transition impact on their assets and liabilities. Regarding the impact on equity, 17% quantified the effect, while 32% explained that there was no material quantitative transition effect on equity.

18. 58% of issuers in the sample disclosed the quantitative transition impact on issuers' performance by using APMs. ESMA notes that 26% of issuers used modified or new APMs compared to previous years as a result of adopting IFRS 16. Some of the APMs more commonly adjusted include EBITDA, EBIT, net financial debt or free cash flow.

19. As ESMA highlighted in the 2019 ECEP Statement, in accordance with paragraphs 41 to 44 of the ESMA Guidelines on APMs, issuers should provide disclosures that enable investors to understand the extent of, and rationale for, any changes to the APMs used. ESMA welcomes the fact that, with regard to the modified or new APMs resulting from application IFRS 16, the large majority of issuers in the sample (81%) complied with all ESMA Guidelines on APMs, with an additional 5% complying with some, but not all the principles included in the Guidelines.[5]

Lease term

20. ESMA observes that 51% of issuers provided sufficient disclosures in relation to determination of the lease term as the non-cancellable period of a lease, whereas disclosures of 26% where not sufficient or not entity-specific. The insufficient disclosures relate to the lack of information on judgements made in determining the lease term of the

[5] Please note that this information relates to APMs included in other parts of the financial report and not in the IFRS annual financial statements.

lease contracts that do not contain specific clauses regarding the termination, cancellation or renewal of the lease. In particular, issuers did not disclose whether penalties incurred on termination of the lease contract are considered, how they assess whether the extension options will be exercised with reasonable certainty, and whether historical experience is taken into account. Examples of information that is not entity-specific include the mere reproduction of the IFRS requirements.

21. As regards the IFRS IC tentative agenda decision[6] on lease terms and the link between lease terms and the period of depreciation of non-removable leasehold improvements, 29% of issuers applied the accounting treatment specified in the decision and provided sufficient and entity-specific disclosures of the accounting treatment. Disclosures of a further 18% of issuers in this regard were insufficient or non-entity specific. 9% of issuers who did not apply those principles provided an estimate of the expected impact of the impending change in their accounting treatment.

22. Looking at the information related to leasehold improvements, only a small number (8%) of issuers disclosed whether there were any significant leasehold improvements over the term of the contract. 71% of those issuers provided sufficient disclosure on how the useful life of the leasehold improvement was determined, with 14% providing a boilerplate disclosure only explaining that the depreciation period is estimated to correspond to the expected economic useful life of the improvement.

23. ESMA points out that the determination of the lease term is one of the aspects that require the use of judgement, notably when the lease contract does not contain specific clauses regarding the termination, cancellation or renewal of the lease, and encourages issuers, where appropriate and significant, to provide more complete disclosures on the determination of the lease term.

Discount rate

24. ESMA notes that 22% of issuers in the sample indicated that they generally discount the lease payments using the interest rate implicit in the lease when measuring the lease liability. However, some of those issuers do it only when this rate can be readily determined and otherwise use the lessee's incremental borrowing rate. Almost all other issuers in the sample used the lessee's incremental borrowing rates.

25. Looking at disclosures of adjustments that might be required when determining the incremental borrowing rate as discussed by IFRS IC[7], ESMA notes that almost 40% of issuers that apply the incremental borrowing rate make adjustments to reflect the interest rate that they would have to pay to borrow the amount needed to obtain an asset of a similar value or to borrow in a similar economic environment, while around 16 % of issuers

[6] *Lease Term and Useful Life of Leasehold Improvements* https://www.ifrs.org/news-and-events/updates/ifric-updates/june-2019/
[7] https://www.ifrs.org/news-and-events/updates/ifric-updates/september-2019/#7

do not make those adjustments and 45% do not disclose in their financial statements whether they make such adjustments.

26. The percentage of issuers who disclosed that they make adjustments to reflect the interest rate for a period similar to the lease term and the interest rate with a similar security is significantly lower with 22% and 28%, respectively. Around 20% of issuers did not apply those adjustments. The proportion of issuers that did not disclose this information is 53% and 59%, respectively.

27. ESMA encourages issuers, where practicable, to provide clear and transparent information on the determination of the incremental borrowing rate.

Presentation and disclosures

28. Looking at the disclosures related to determining the lease term, ESMA notes that three quarters of issuers in the sample provided sufficient and entity-specific disclosures allowing users to assess the impact of leases on the issuer's financial position, financial performance and cash flows, with the remaining issuers provided disclosures of a partial or boilerplate nature (15%) or no disclosure at all (8%). ESMA observes that disclosures on the lease term's determination were less complete in relation to the judgements that management has made in the process of applying the entity's accounting policies, with 46% providing those disclosures and 23% providing boilerplate or non-entity specific disclosures.

29. The same applies to the lease term-related disclosures of the assumptions about the future, and other major sources of estimation uncertainty at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. 51% of the issuers for which the disclosure was relevant (46% of all issuers in the sample) adequately disclosed these judgements, while the disclosures made by 21% of these issuers were unsatisfactory. More specifically, 40% of the issuers did not disclose assumptions and judgements regarding the period for which the contract is enforceable (including disclosures about the existence of a no more than insignificant penalty upon contract termination), where relevant. 8% of the disclosures were insufficient. For example, one issuer did not disclose its assumptions about the conditions under which early termination of contracts is expected. Another issuer did not explain, for contracts including penalties in connection with non-revocable deadline clauses, how those penalties are taken into account.

30. ESMA welcomes the fact that all issuers in the sample disclosed information related to sale and leaseback transactions including gains or losses arising from sale and leaseback transactions, where relevant and material (19% of issuers in the sample).

31. While two thirds of issuers presented right-of-use assets separately from other assets within the statement of financial position, one third disclosed them separately in the notes. The carrying amount of right-of-use assets at the end of the reporting period and depreciation charge for these assets by class of underlying asset was reported by nearly all issuers.

32. Furthermore, nearly all concerned issuers provided disclosure on additions to right-of-use assets. 68% of issuers involved in subleasing right-of-use assets (26% of all issuers in the sample) disclosed income from subleasing.

33. Regarding the disclosure on leasing-related expenses, almost all issuers in the scope disclosed interest expense on lease liabilities. Additionally, nearly 80% of the issuers for which it was applicable provided information on the expense relating to short-term leases and leases of low-value assets accounted for applying paragraph 6 of IFRS 16. Furthermore, 70% of issuers provided explanations on the expense relating to variable lease payments not included in the measurement of lease liabilities, where relevant.

34. Looking at disclosure of total cash outflow from leases, 86% of issuers in the sample provided the required information.

35. ESMA observes that the large majority of issuers (80%) presented the above mentioned quantitative disclosures required by paragraph 53 of IFRS 16 in a tabular format while a minority of issuers preferred the text format or mixture of table and text format. Moreover, while 69% of issuers presented lease liabilities separately from other liabilities within the balance sheet, 31% disclosed them separately in the notes.

36. Furthermore, 93% of issuers presented the interest expense on lease liabilities as a component of finance costs separately from the depreciation charges for right-of-use assets.

37. Finally, in the statement of cash flows, 88% of issuers classified cash payments for the principal portion of the lease liability within financing activities, with 12% presenting those cash payments within operating activities or not providing this information in their financial statements. Furthermore, 45% of issuers classified payments for short-term leases, low-value assets and variable amounts not included in the measurement of the lease liability within operating activities, while the other half did not make this information available in the financial statements. Lastly, 38% of issuers classified cash payments for the interest portion of the lease liability as financing cash flows with 26% classifying them as operating cash flows and one-third of issuers not disclosing how these cash flows were classified. ESMA calls for more transparency regarding how these amounts are presented in the cash flow statement e.g. in the accounting policies-related disclosures.

Impairment of right of use assets

38. Looking at disclosures on impairment of right of use assets, in addition to the information required by paragraph 134 of IAS 36, ESMA observes that only 15% of issuers in the sample provided information on how the methodologies, inputs and assumptions used for carrying out impairment tests have changed to take into consideration the specificities of lease accounting. Examples of such disclosures are information about the adjustment of the leverage of peer group companies or using discount rates that reflect the financial leverage provided by the leasing contracts. ESMA encourages issuers, where relevant, to enhance their disclosures in this respect in future financial statements.

Enforcement actions

39. European enforcers took 18 enforcement actions against the issuers in the sample, composed of 15 corrections in the future financial statements with restatement of comparatives and three corrective notes. Enforcement actions regarding measurement issues are notably related to the calculation of the lease term. For example, in one case, a lack of consistency was observed between the lease term and the period retained to determine the related dismantling liabilities. Enforcement actions related to disclosures include the presentation of the cash payments for the principal portion of the lease in the cash flow statement, insufficient explanation of issuers' arrangements in the scope of IFRS 16, the maturity of the lease liabilities and entity-specific information on the determination of the lease term and of the interest rate.

40. Another 13 examinations in relation to the issuers in the sample are still ongoing.

3.1.1.2 Specific aspects of application of IAS 12

a) Application of IFRIC 23

41. European enforcers assessed the way non-financial companies applied specific IFRIC 23 requirements highlighted in the 2019 ECEP based on a sample of 14 issuers with material uncertain tax positions. The uncertainty in the financial statements of the issuers in the scope results largely from tax investigations and disputes with tax authorities in various jurisdictions related for instance to transfer pricing, tax deductibility of certain transactions or claims on foreign tax credits. The issuers in the sample represented all sectors and all market capitalisation classes.

Analysis of information provided

42. ESMA notes that three quarters of issuers in the sample applied the modified retrospective approach adopting IFRIC 23, while one quarter of issuers chose the application of the full retrospective approach.

43. Looking at disclosures of accounting policies related to the recognition and measurement of uncertain income tax treatments, 71% of issuers explained in a clear way how the IFRIC 23 requirements apply to the entity, while the remaining 29% of issuers provided disclosure of a boilerplate nature simply recalling the words of the standard.

44. As regards providing sufficient transparency on the judgements made regarding the accounting policies, half of the issuers disclosed that they consider the uncertain tax treatments separately. One issuer explained that it considers uncertainties individually or collectively, based on which approach provided the best predictions of the resolution of the uncertainties with the tax authorities. The remaining issuers in the sample did not provide any information on whether they consider uncertain tax treatments separately or collectively.

45. Regarding the disclosure of methods used to reflect the effect of uncertainty, 36% of issuers explained that they used the single most likely amount in a range of possible outcomes. A small number of issuers explained that they used either the most likely amount or the expected value depending on which method is expected to better predict the resolution of the uncertainty. One issuer recognises a liability that covers 100% of the amount of the claim. On the other hand, 43% of users did not disclose the method they use.

46. ESMA noted that only 14% of issuers disclosed changes in judgements, methods or assumptions related to uncertainty of the income tax treatment from the previous period. This relates most notably to changes in judgements due to reassessment of tax litigations taking into account new court decisions in similar cases.

47. If the uncertain income tax treatment is considered a major source of estimation uncertainty, the amount of the uncertain tax position should be disclosed in accordance with paragraphs 125-129 of IAS 1. ESMA notes that almost 90% of issuers in the sample whose income tax treatment is considered a major source of estimation uncertainty (50% of issuers in the sample) provided the required disclosure.

48. Only 14% of issuers presented uncertain tax liabilities or assets as separate line items in their balance sheets. More than half of the other issuers in the scope disclosed these amounts in their notes.

49. Finally, almost 90% of issuers who reported it is probable that a taxation authority will accept an uncertain tax treatment (50% of issuers in the sample) disclosed the potential effect of the uncertainty as a tax-related contingency.

Enforcement actions

50. European enforcers did not take any enforcement actions on IFRIC 23-related information in the financial statements of the issuers in the sample during 2020. Three enforcement examinations are currently still ongoing in this area.

b) Amendments to IAS 12 stemming from the 2015-2017 Annual improvements

51. During 2019, European enforcers assessed the way issuers applied the 2019 ECEP regarding the new paragraph 57A of IAS 12 which requires an issuer to recognise the income tax consequences of dividends when it recognises a liability to pay a dividend, based on a sample of five issuers (of the initially selected sample of 24 issuers only five issuers had material balances of financial instruments classified as equity and had payments with incomed tax consequences considered as dividends). Four of those issuers were in the financial sector and one in the energy sector. Two issuers had a market capitalisation above EUR 25 billion, two between EUR 5 billion and 25 million and one issuer was a bond issuer.

Analysis of information provided

52. ESMA observes that all issuers in the sample recognised the income tax consequences of dividends in the location where they originally recognised the past transactions or events

that generated the dividends (i.e. profit or loss or equity) and disclosed the income tax consequences of dividends transparently.

53. Finally, with regard to the aggregate current and deferred tax relating to items that were charged or credited directly to equity, the disclosures of all issuers were in line with the standards.

Enforcement actions

54. European enforcers did not take any enforcement actions on information related to amendments to IAS 12 stemming from the *2015-2017 Annual improvements* in the financial statements of the companies in the sample during 2020. Three enforcement examinations are currently still ongoing in this area.

3.1.1.3 Follow up of the application of IFRS 15 by corporate issuers

55. A specific approach was determined to follow up the application of IFRS 15 by corporate issuers. In the EECS meetings in 2020, in addition to the discussion of emerging issues and decisions related to IFRS 15, general, industry-wide IFRS 15-related issues that enforcers encountered during their enforcement activities at national level were discussed. Please refer to section 3.3 for further details.

3.1.1.4 Other IFRS-related priorities included in the 2019 ECEP Statement

56. In line with the 2020 work-programme for corporate reporting, a specific approach should have been developed in 2020 for ECEP 2019 follow-up topics related to the application of specific aspects of the ECL model in IFRS 9 for credit institutions in the form of a study on comparability of disclosures in 2019 financial statements. However, due to unplanned activities in 2020 related to the COVID-19 pandemic (please refer to section 3.7 for further details), the conduct of the study was postponed to 2021.

57. For the same reason, the assessment of the application of the requirements related to deferred tax assets arising from the carry-forward of unused tax losses in the financial statements of issuers was postponed to 2021.

3.1.1.5 Conclusion on 2019 ECEP relating to IFRS annual financial statements

Analysis of information provided

58. 2019 was the first year in which IFRS 16 was mandatorily applied by all entities. Issuers were expected to provide certain transition disclosures in their annual financial statements for 2019 regarding the impacts of IFRS 16. ESMA observes that these disclosures were overall fairly complete, although issuers could have provided more specific information on the quantitative impact of the transition on their performance.

59. Based on the observations described above, ESMA calls for more transparency regarding the following elements:

- Judgements related to determination of the lease term in lease contracts;
- Existence of any significant leasehold improvement related to the lease;
- Adjustments that might be required when determining the incremental borrowing rate as discussed by IFRS IC;
- Presentation of cash payments for the interest portion of the lease liability in the cash flow statement; and
- Information on how the methodologies, inputs and assumptions used for carrying out impairment tests take into consideration the specificities of lease accounting.

60. Another European common enforcement priority for 2019 annual financial reports was specific aspects of application of IAS 12. In this regard, ESMA identified the following areas related to the application of IFRIC 23 in which improvements are needed:

- Disclosure of methods used to reflect the effect of uncertainty (e.g. single most likely amount in a range of possible outcomes or expected value);
- Disclosure of information on whether they consider uncertain tax treatments separately or collectively.

Enforcement actions

61. Overall, European enforcers took 18 enforcement actions against the 101 issuers in the sample. These actions mainly consisted of requiring the issuer to correct the relevant matter in the future financial statements. In addition to those actions undertaken within 2020, 16 examinations of 2019 IFRS annual financial statements were still open at the end of 2020. The sample action rate was 18%.

62. The table below reflects the distribution and types of actions across the standards examined for the purpose of the 2019 ECEP Statement.

Table 1: *Enforcement actions on the sample of issuers*

	IFRS 16	IAS 12		Total
		Application of IFRIC 23	*Amendments to IAS 12*	
Reissuance of financial statements	0	0	0	**0**
Public corrective note	3	0	0	**3**
Correction in future financial statements	15	0	0	**15**
Total number of enforcement actions	**18**	**0**	**0**	**18**
Sample size	84	14	5	**101**[8]
Sample action rate	21%	0%	0%	**18%**

[8] As examinations might cover several areas of the same set of IFRS financial statements, please note that the total number of issuers indicated in the table – 101 – is lower than the total of the sample size.

3.1.2 Considerations on non-financial statements

63. The 2019 ECEP Statement included a number of considerations relating to other parts of the annual financial report.

64. These considerations firstly related to the consideration of ESMA Guidelines on Alternative Performance Measures (APMs) in connection with the amendment or inclusion of new alternative performance measures (APMs) in issuers' communication documents as a result of the implementation of IFRS 16. For a summary of the findings in this connection please refer to section 3.1.1.1.

65. Secondly, the 2019 ECEP Statement contained considerations related to the disclosure of non-financial information under Articles 19a and 29a of the Accounting Directive, specifically concerning (i) general aspects, including materiality of information, completeness of disclosures as well as balance and accessibility, (ii) environmental matters and climate change, (iii) disclosure of relevant Key Performance Indicators, (iv) use of disclosure frameworks and (v) supply chains. For the purpose of collecting data on the way issuers addressed these areas, over the course of 2020 European enforcers examined non-financial statements from a sample of 114 issuers from 24 EEA countries.[9] As the national transpositions of Articles 19a and 29a became applicable in most EEA countries for reporting periods starting on or after 1 January 2017, for most European enforcers the examinations undertaken during 2020 constituted the third cycle of reviews of non-financial statements.

66. Of the 118 non-financial statements examined, 68% were included directly in the management report, of which 18% via cross-reference, while 14% presented the non-financial statement separately but still within the annual financial report. 18% of the examined issuers presented the non-financial statement separately outside the annual financial report. The vast majority of non-financial statements examined (116) were consolidated statements.

67. In the summary of findings presented in the following subsections, please be aware that, for each question, issuers for which a given topic was not applicable were removed from the sample for the purpose of calculating the percentages presented. This applies in particular to cases where the enforcer only verified the existence of certain information. Therefore, all findings refer to the sub-sample of issuers for whom a given topic was relevant.

68. Information about the sector and capitalisation of all 118 issuers in the sample is presented in the graphs below.

[9] The sample does not include issuers from Croatia, Cyprus, Ireland and Norway. In the three former countries, the European enforcer does not have powers relating to the non-financial statement and in the latter, the Accounting Directive, including Articles 19a and 29a, is not yet finally transposed into national legislation. Furthermore, Liechtenstein is not covered in the sample.

Figure 3: *Sample of issuers by sector of activity*

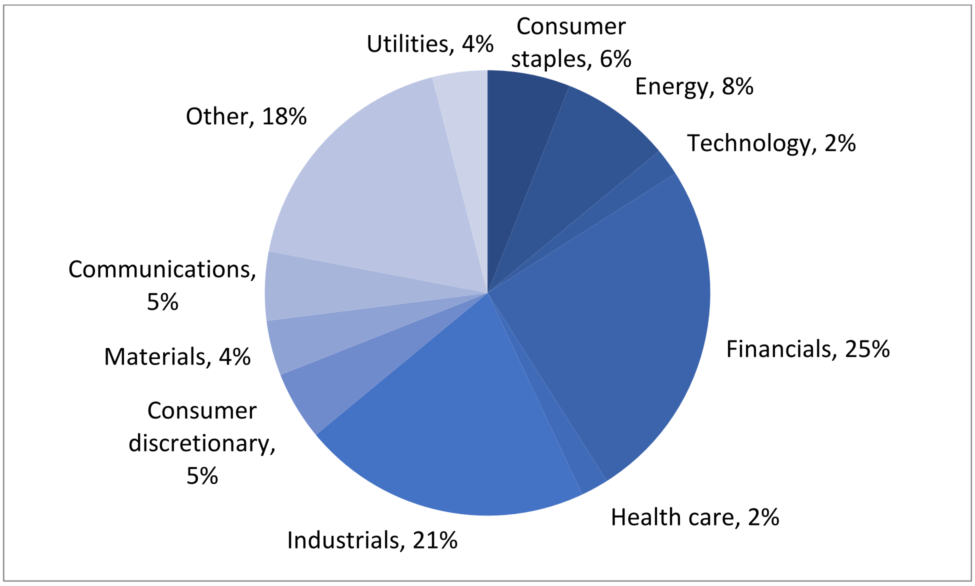
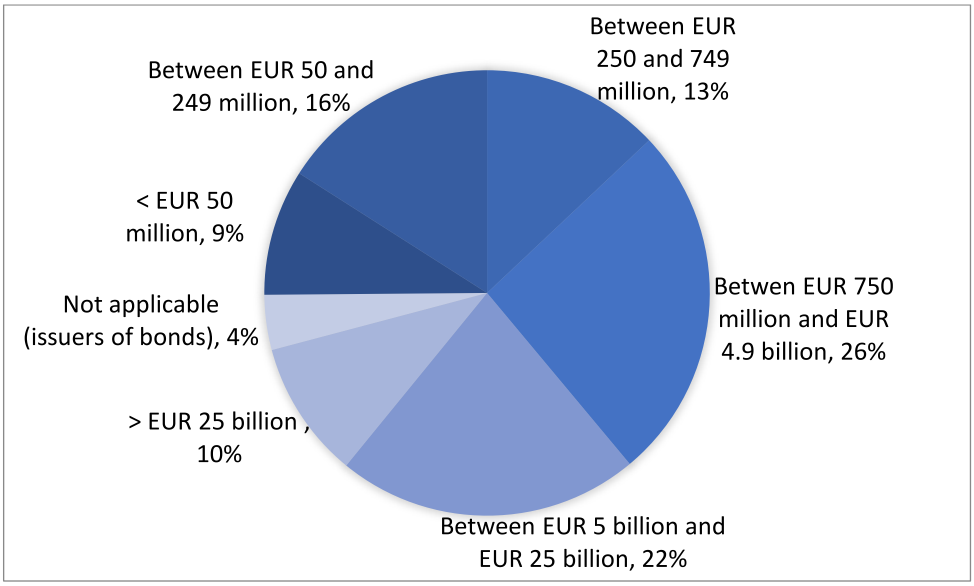


Figure 4: *Sample of issuers by market capitalisation*



3.1.2.1 Material information

Analysis of information provided

69. Around three quarters of issuers in the sample provided explanations on how they performed their materiality assessment when preparing the non-financial statements. Examples of helpful disclosure included presentation of a materiality matrix based on the findings of surveys of external stakeholders and employees.

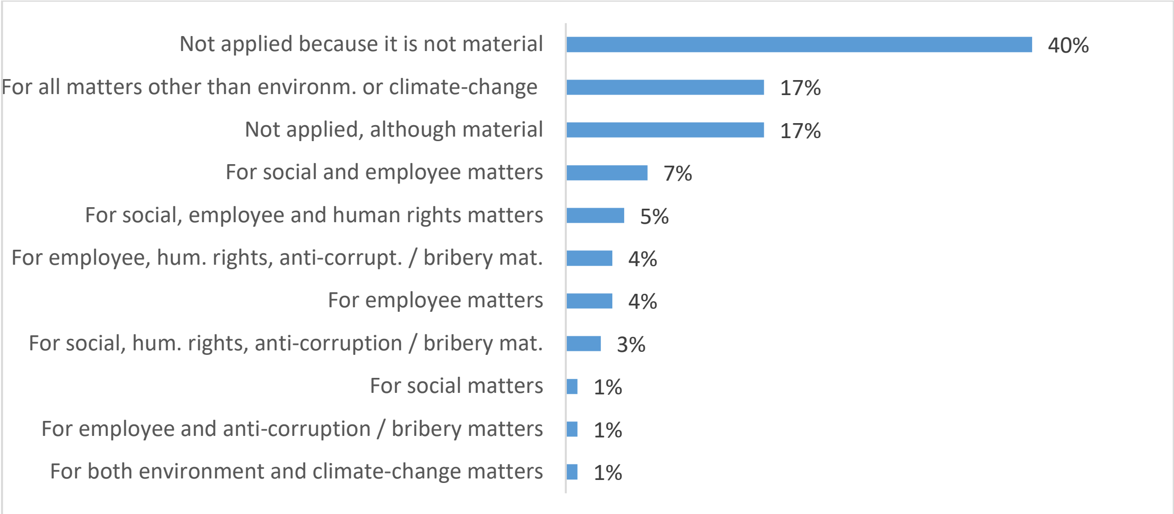
70. ESMA observed that 60% of issuers explained how the needs of different stakeholders were taken into account. Examples of this disclosure included materiality surveys with internal and external stakeholders and the resulting dialogue, conducting a workshop involving a working team of top managers, executives, department managers and other professionals or interviews of opinion leaders in the sector where the issuer operates.

71. Only a low proportion of issuers in the sample (23%) disclosed how they took account of the selection of relevant time horizons in their materiality assessment. One issuer divided for instance the impacts of material issues among those that will occur within or after the time horizon of the current strategic plan. Another issuer reported considering risks over medium-term (two to five years) and long-term (five to 30 years)

72. ESMA observed that 30% of issuers disclosed how they took account of the probabilities associated with financial and non-financial impacts in their materiality assessment. A useful example in this area is assigning a degree of relevance to the identified material aspects based on their possible impact (positive and negative) on issuers' ability to generate value.

73. Looking at the application of the double materiality perspective, ESMA notes that only 17% of the issuers in the sample applied this principle to the disclosure on all of the non-financial matters other than environmental or climate-change related matters. Another 7% applied it only to social and employee matters and a further 5% only to disclosures on social, employee and human rights matters. Detailed information on the application of the double materiality perspective in the non-financial reports of all issuers in the sample is presented in the graph below.

Figure 5: *Application of the double materiality perspective*



74. Since explaining how issuers have determined what is material when preparing the non-financial statement may improve the communication between issuers and users of non-financial statements, ESMA expects that disclosure will improve in coming years as issuers' implementation of the requirements in Articles 19a and 29a progresses.

Enforcement actions

75. European enforcers took six enforcement actions in relation to considering materiality, or the lack thereof, in 2019 non-financial statements, all by requiring a correction in the future non-financial statement. Completed actions relate to, among other topics, failure to disclose a materiality analysis, low update frequency of the materiality matrix, conducting a materiality analysis without a dialogue with the issuer's main stakeholders, missing disclosure of how an issuer took account of the probabilities associated with financial and non-financial impacts in its materiality assessment.

3.1.2.2 Completeness of disclosures

Analysis of information provided

76. ESMA welcomes the fact that nearly all issuers in the sample (between 96% and 98%) addressed in their non-financial statements each non-financial matter referred to in the accounting directive.

77. However, only 79% of issuers in the sample disclosed information on climate change-related matters with 6% explaining why they have omitted these matters and 15% not addressing these matters and not providing an explanation for that. ESMA observes that some issuers did not distinguish clearly which matters are environmental and which matters are related to climate change.

Table 2: *Addressing non-financial matters in the disclosures*

	Yes	No, but the issuer explains why it has omitted these matters	No, and the issuer does not explain why it has omitted these matters
Environmental matters (excluding climate change-related matters)	96%	2%	2%
Climate change-related matters	79%	6%	15%
Social matters	97%	0%	3%
Employee matters	97%	1%	2%
Human rights matters	97%	2%	1%
Anti-corruption and bribery matters	98%	1%	1%

78. Looking at the description of the policies pursued by issuers in relation to the addressed matters, ESMA notes that almost all issuers in the sample provided sufficient description of their policies related to the environmental matters (excluding climate changes), social matters and employee matters (between 93% and 94%). The disclosures for climate change-related matters, human rights matters and anti-corruption and bribery matters were

somewhat less often sufficient with about 10% of issuers providing boilerplate descriptions of policies pursued with regards to these matters.

Table 3: *Description of the specific policies*

	Yes, sufficient description	Yes, but the description is boilerplate	No
Environmental matters (excluding climate change-related matters)	93%	5%	2%
Climate change-related matters	87%	9%	4%
Social matters	94%	6%	0%
Employee matters	94%	3%	3%
Human rights matters	82%	11%	7%
Anti-corruption and bribery matters	87%	9%	4%

79. With regard to the description of due diligence processes, ESMA observes that between 78% and 90% of issuers provided a sufficient description of these processes depending on the addressed matters. Sufficient descriptions were provided most often in relation to the employee and environmental matters (90% and 87% of issuers, respectively), whereas only around 80% of issuers in the scope provided entity-specific description of due diligence processes regarding human rights and climate change-related matters.

Table 4: *Description of the related due diligence processes*

	Yes, sufficient description	Yes, but the description is boilerplate	No
Environmental matters (excluding climate change-related matters)	87%	5%	8%
Climate change-related matters	78%	5%	17%
Social matters	82%	5%	13%
Employee matters	90%	4%	6%
Human rights matters	78%	8%	14%
Anti-corruption and bribery matters	84%	7%	9%

80. A helpful example of describing the due diligence processes related to environmental matters is disclosing the use of a specific tool for detailed assessment of sites identified as risky and the development of appropriate action plans, while a compelling example related to human rights matters is describing procedures for assessing human rights risks in the issuer's operations through the development of guidelines and a self-assessment tool.

81. A high percentage of issuers (between 88% and 90%) provided a sufficient description of the outcomes of the policies they pursued in relation to the environmental, climate change-related, social and employee matters. In contrast, less issuers provided a satisfactory description of policy outcomes related to human rights and anti-corruption and bribery matters (73% and 69%, respectively), with around 15% providing boilerplate descriptions, which illustrates the difficulties encountered by many issuers when depicting the outcomes of these specific policies.

Table 5: *Description of the outcomes of the policies pursued*

	Yes, sufficient description	Yes, but the description is boilerplate	No
Environmental matters (excluding climate change-related matters)	88%	5%	7%
Climate change-related matters	85%	3%	12%
Social matters	88%	5%	7%
Employee matters	90%	6%	4%
Human rights matters	73%	16%	11%
Anti-corruption and bribery matters	69%	14%	17%

82. Finally, looking at the description of the identified principal risks, ESMA observes that this is the area where the percentage of issuers providing sufficient descriptions is the lowest compared to other areas. This is particularly true for human rights matters and anti-corruption and bribery matters, where the percentage of issuers that provided sufficient description is 66% and 64%, respectively, while the descriptions of 15% and 19% of issuers in the sample were boilerplate in nature.

Table 6: *Description of the identified principal risks*

	Yes, sufficient description	Yes, but the description is boilerplate	No
Environmental matters (excluding climate change-related matters)	76%	12%	12%
Climate change-related matters	78%	11%	11%
Social matters	69%	14%	17%
Employee matters	79%	8%	13%
Human rights matters	66%	15%	19%
Anti-corruption and bribery matters	64%	19%	17%

Enforcement actions

83. European enforcers took 12 enforcement actions in relation to completeness of disclosures in 2019 non-financial statements, all by requiring a correction in the future non-financial statement. The completed actions relate, among other topics, to the lack of sufficient information on various aspects of human rights matters and missing examples of related due diligence procedures, an insufficient distinction between aspects relating to social matters and those relating to personnel matters, and the provision of only boilerplate information relating to corruption and bribery without a description of specific instruments in place used to fight against such matters. Eight further examinations are currently ongoing.

3.1.2.3 Balance and accessibility

Analysis of information provided

84. ESMA observes that 56% of issuers in the scope provided a balanced depiction of the non-financial risks and opportunities for all non-financial matters, while descriptions of another 26% of issuers were balanced not for all but only for some non-financial matters. ESMA points out that the non-financial statement may result in misleading information if it focuses on matters for which ‘good news’ can be conveyed and disregards or gives less prominence to other matters for which information is less favourable.

85. ESMA welcomes the fact that, in the non-financial statements or management reports of 96% of issuers, disclosures of the various non-financial matters were easy to find. Good practices of some issuers include a clear mapping of where the relevant non-financial information can be found, cross reference tables linking main requirements of the Accounting Directive to the sections of the report, informative headings, use of the Global

Reporting Initiative (GRI) Content Index and visual elements such as tables, indexes and graphs.

Enforcement actions

86. European enforcers took two enforcement actions in relation to balance and accessibility of information, or the lack thereof, in 2019 non-financial statements, both by requiring a correction in the future non-financial statement. Completed actions relate, among other topics, to an imbalanced description of good results achieved by an issuer as compared to less positive information.

3.1.2.4 Environmental matters and climate change

Analysis of information provided

87. With regard to the inclusion of the double materiality perspective on the environmental matters and climate change in non-financial statements, ESMA observes that 59% of issuers in the sample included information on the consequences of the issuers' activities and of the use of the issuers' products and services by customers for both the environment and the climate. 17% of issuers included this information only for the environment while the remaining issuers did not provide any information on the consequences of their activities.

88. In contrast, only 41% of issuers provided information on how they are impacted by the consequences of both environmental matters and climate change with 10% explaining only the impact of the climate change and 6% explaining the impact only for environment. ESMA observes that a clear differentiation between physical risks (e.g. indication that increasingly intense extreme/chronic climate phenomena could in the medium to long term damage plants and infrastructures of the issuer resulting in an interruption of industrial activities and increased recovery and maintenance costs) and transition risks (such as increased regulation and associated costs of compliance or increasing carbon pricing) is helpful for a better understanding of those risks.

89. As double materiality is an important concept in relation to the non-financial disclosures, ESMA encourages issuers to give this principle more thorough consideration in their non-financial statements prepared for subsequent reporting periods.

Enforcement actions

90. European enforcers took 12 enforcement actions in relation to disclosure of environmental matters and climate change in 2019 non-financial statements, all by requiring a correction in the future non-financial statement. Two further examinations of 2019 non-financial statements were still ongoing at the end of 2020. Completed actions and ongoing examinations relate to the insufficient identification of specific risks related to issuers' activities and their impact on climate taking into account the double materiality perspective, as well as the lack of description of the processes and frequency with which the issuer's Board of Management and Board Committees are informed about climate-related issues.

3.1.2.5 Disclosure of relevant Key Performance Indicators (KPIs)

Analysis of information provided

91. ESMA observes that 49% of issuers in the scope provided KPIs in relation to all non-financial matters while 43% provided KPIs for some non-financial matters. Among the more frequently disclosed KPIs were primarily indicators related to environmental matters such as electricity consumption, water consumption, carbon / CO_2 / greenhouse gas emissions. Examples of KPIs in other areas include female presence, hours of training provided, accident rates, audit actions on risk of corruption activities, number of whistleblowing reports.

92. Two thirds of issuers complemented the disclosure of KPIs with information on progress made with reference to previous reporting periods for all disclosed KPIs, while another 16% provided this information for only some of the disclosed KPIs. Furterhmore, ESMA observed diversity in terms of the extent of presentation. While some issuers presented and explained the development of the numbers for longer periods including several years, other issuers only provided comparative amounts without any explanations.

93. Of the issuers who disclosed KPIs, 32% complemented the disclosure of all KPIs by information on the pre-determined internal and external targets which may enable users to access the issuer's performance. Another 29% disclosed this information for some of disclosed KPIs.

94. While 63% of issuers who disclosed KPIs included in their non-financial statements the definition and methodology to determine the KPIs with regards to all disclosed KPIs, 7% included this information only for some of the disclosed KPIs. On the other hand, 30% of issuers did not present definitions and methodology for the KPIs they used, sometimes providing only definitions but no methodologies. ESMA notes that more comprehensive explanations were often provided for environment-related KPIs and that the level of detail provided varied in some cases across both issuers and KPIs of the same issuer. Good practices of some issuers include presenting a glossary with KPI definitions.

95. Non-financial disclosures of 78% of the issuers in the sample contained a clear link between the disclosed policies and included KPIs. For 7% of issuers, this link was clear for some but not for all disclosed KPIs. The inclusion of an index table with reference to the guidelines and KPIs has proven helpful.

Enforcement actions

96. European enforcers took 16 enforcement actions in relation to disclosure of KPIs in 2019 non-financial statements, all by requiring a correction in the future non-financial statement. Four further examinations of 2019 non-financial statements were still ongoing at the end of 2020. Completed actions and ongoing examinations relate for example to the lack of detailed information on some KPIs (e.g. how the frequency rate and the seriousness rate of accidents are defined), low relevance of some KPIs used by an issuer, and missing KPIs for social, human rights and anti-corruption/anti-bribery policies.

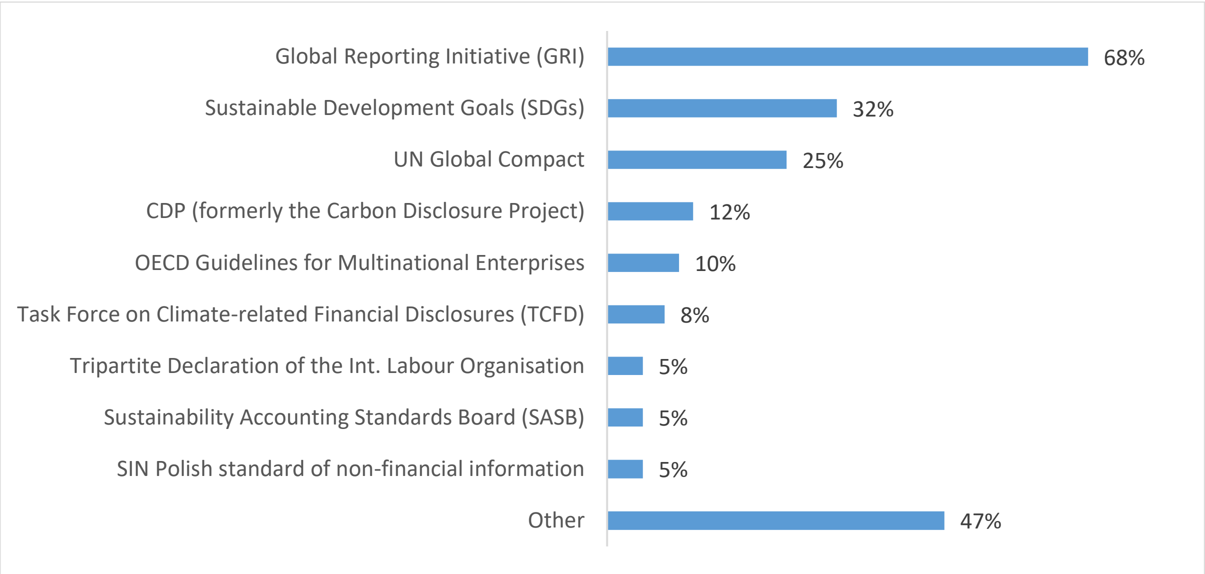
3.1.2.6 Use of disclosure frameworks

Analysis of information provided

97. ESMA observes that while 40% of issuers used one framework, in the non-financial reports of 45% of issuers multiple frameworks were applied. Another 15% of issuers did not mention any disclosure frameworks. 60% of issuers that applied only one disclosure framework chose to use the GRI standards. ESMA welcomes the fact that the proportion of the issuers that did not mention having used any framework at all when preparing their non-financial statement has halved compared to the previous year.

98. Information about the frameworks used by issuers in the sample is presented in the graph below.

Figure 6: *Use of disclosure frameworks (only issuers that mentioned at least one framework were considered)*



99. Similarly to the previous year, issuers in the sample used a wide range of disclosure frameworks which helps to explain the diversity in the observed reporting practices, e.g. in relation to the disclosure of KPIs.

100. Of the issuers who disclosed disclosure frameworks they used, 82% provided clear disclosures on which pieces of information in the non-financial statement were based on which of the adopted disclosure frameworks. Disclosures provided by a further 12% of issuers were clear in this respect only for some of the mentioned frameworks. Presenting this information in table format proved to be particularly helpful.

101. While half of the issuers that used the GRI standards stated that they used the GRI Core Option, reporting according to the GRI Comprehensive Option was explicitly mentioned by 11% of the issuers. 91 % of issuers who used the SDG standards explained how their activities contribute to the SDGs and the progress made towards their achievement

Enforcement actions

102. European enforcers took four enforcement actions in relation to the use of disclosure frameworks related in 2019 non-financial statements, all by requiring a correction in the future non-financial statement. Three further examinations of 2019 non-financial statements are currently ongoing. Enforcement actions relate to topics such as lack of reference and/or compliance with used frameworks.

3.1.2.7 Supply chains

Analysis of information provided

103. ESMA observes that 60% of issuers in the sample provided sufficient information on the risks and opportunities associated with their supply chains while 11% provided information which was insufficient to give a general understanding of the issuer's supply chain because it was rather generic in nature or only assessed risk factors but not the opportunities. Another 29% did not provide any information on these risks and opportunities.

104. Of the issuers who disclosed risks and opportunities related to their supply chains, a large majority of 87% provided information on how relevant non-financial matters are considering the issuer's supply chain. 8% included this information, but it was not sufficient to give a general understanding of how relevant non-financial matters were considered in the issuer's supply chain and another 5% provided no such information. An example of a helpful disclosure is disclosure of the issuer's requirement that suppliers respond to an assessment questionnaire that is reviewed and scored by a third party, and depending on the results, a CSR audit may be conducted on site.

105. ESMA recommends that issuers carefully assess whether their involvement in supply chains may give rise to material information to be disclosed.

Enforcement actions

106. European enforcers took two enforcement actions in relation to disclosure on supply chains related to supply chains in 2019 non-financial statements, by requiring a correction in the future non-financial statement. Two further examinations of 2019 non-financial statements were still ongoing at the end of 2020. Completed actions and ongoing examinations relate to lack of presentation of material non-financial risks arising from issuers' supply chains and the policies put in place in this respect.

3.1.2.8 Conclusion regarding the considerations on non-financial statements

Analysis of information provided

107. ESMA highlighted in its 2019 ECEP Statement that, based on the evidence from the review of the non-financial statements of European issuers, some general principles need to be

reiterated with the aim of promoting improvements in the quality of public reporting of non-financial information.

108. Based on the non-financial statements reviewed, ESMA observes that there is room for improvement in relation to general principles such as materiality, completeness, and balance and accessibility. With regard to the materiality aspect, this concerns notably the disclosures on how issuers consider the selection of relevant time horizons and the probabilities associated with financial and non-financial impacts in their materiality assessment and the application of the double materiality perspective to all non-financial matters other than environmental or climate change-related matters.

109. In relation to completeness of disclosures, ESMA welcomes the fact that nearly all issuers in the sample addressed in their non-financial statements each non-financial matter referred to in the Accounting Directive. However, ESMA urges issuers to improve their disclosures on climate-change related matters and provide a better description of the identified principal risks especially in relation to human rights and anti-corruption and bribery matters.

110. Finally, ESMA welcomes the fact that disclosures of the various non-financial matters were easy to find in the non-financial statements or management reports of the vast majority of issuers and that most issuers in the scope provided a balanced depiction of the non-financial risks and opportunities for all non-financial matters.

111. With respect to disclosure on environmental matters and climate change, ESMA notes that more work is needed to disclose how issuers are impacted by the consequences of environmental matters and climate change to adequately reflect the double materiality perspective.

112. ESMA notes positively that most issuers complemented the disclosure of KPIs with information on progress made with reference to previous reporting periods for all disclosed KPIs. There was, however, diversity in terms of the extent of this information which was partly less detailed. Furthermore, as in the previous year, ESMA observes that the absence of detailed and uniform disclosure requirements to complement the Accounting Directive has led to disclosure of a wide variety of KPIs. Notably, KPI disclosure was the area that required the highest number of enforcement actions.

113. ESMA welcomes the fact that the proportion of the issuers that did not mention having used some reporting framework when preparing their non-financial statement has halved compared to the previous year. Yet, given the wide range of disclosure frameworks used by issuers in the sample, ESMA reiterates its observation that a wide range of disclosure frameworks contributes to the diversity in the reporting practices, e.g. in relation to the disclosure of KPIs.

114. ESMA welcomes that the majority of issuers in the sample provided information on the risks and opportunities associated with their supply chains and how relevant non-financial matters consider the issuer’s supply chain.

115. In addition to the above observations on the specific topics covered in the 2019 ECEP Statement, the examination of the 118 issuers in this year's sample led to some more general findings. European enforcers most frequently mentioned shortcomings such as lack of quantitative disclosure, insufficient description of the double materiality in all non-financial matters, missing description of the results of human rights and anti-corruption/anti-bribery policies, lack of KPIs to assess compliance with human rights and on anti-corruption and bribery issues, lack of clear differentiation between environmental matters and climate change matters, missing explanations of the relevance of each disclosed KPI.

116. Based on their examinations, European enforcers also highlighted a number of approaches to non-financial disclosure which they had found particularly clear and helpful for users of non-financial statements. ESMA is of the view that these good practices could serve as inspiration for the preparation of future non-financial statements and therefore mentions a selection in the following paragraphs:

- The issuer mentions the areas in which it did not live up to its targets and it explains how it will try to change this in the future.

- The issuer is clear about which group entities are covered by the disclosure in the non-financial statement.

- The issuer clearly explains the methodology it used to prepare the non-financial information, especially regarding calculation of KPIs and determination of (non-) materiality.

- The issuer presents the information with a clear structure, using, for example, tables of contents, indications of which information fulfils certain requirements in legislation / disclosure frameworks and cross-references between sections that are interlinked.

Enforcement actions

117. Overall, European enforcers took 54 enforcement actions against the 118 issuers in the sample, all in the form of requiring the issuer to correct the relevant matter in the future non-financial statement. In addition, 19 examinations in relation to those issuers were still ongoing at the end of 2020. The sample action rate was 46%.

118. The table below reflects the distribution of actions taken across the three focus areas of the 2019 ECEP Statement.

Table 7: Enforcement actions on the sample of issuers

	General aspects[10]	Environ-mental matters and climate change	KPI disclosure	Use of disclosure frameworks	Supply chains	Total[11]
Reissuance of non-financial statement	0	0	0	0	0	**0**
Public corrective note	0	0	0	0	0	**0**
Correction in future non-financial statement	20	12	16	4	2	**54**
Total number of enforcement actions	**20**	**12**	**16**	**4**	**2**	**54**
Sample size	-	-	-	-	-	**118**
Sample action rate	-	-	-	-	-	**46%**

[10] Material information, completeness of disclosures, balance and accessibility.

3.2 2020 ECEP Statement

119. As in previous years, ESMA and European enforcers agreed on European Common Enforcement Priorities related to IFRS financial statements in advance of the preparation, audit and publication of 2020 annual financial reports and published these in the 2020 ECEP Statement.[12] The Statement furthermore contains considerations on the topics related to other parts of the annual financial report that were identified as particularly important for European issuers for the reporting period of 2020. When selecting the various topics for the Statement, ESMA focused on the need to provide adequate transparency regarding the consequences of the COVID-19 pandemic which, due to its pervasive nature, are expected to affect several areas of the 2020 annual financial reports.

120. This Statement builds upon and further expands on the recommendations provided in ESMA's publications on the implications of the COVID-19 outbreak in 2020[13] taking into account preliminary evidence resulting from a fact-finding exercise conducted by ESMA together with national enforcers in the second half of 2020. As such, in relation to financial reporting the 2020 ECEP focus on:

- IAS 1 *Presentation of Financial Statements*;
- IAS 36 *Impairment of Assets*;
- IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*; and
- IFRS 16 *Leases*.

121. The 2019 ECEP Statement additionally sets out considerations on sections of the annual financial report other than the financial statements. Firstly, it addresses a number of topics in relation to disclosure of non-financial information under the Accounting Directive. The considerations in this area address pervasive impacts of the COVID-19 pandemic on non-financial matters, namely social and employee matters, business model and value chain creation and risk relating to climate change. Secondly, the Statement presents considerations on the impact that the COVID-19 pandemic may have on APMs disclosed by issuers.

122. The 2020 ECEP Statement also draws issuers' attention to requirements to prepare annual financial reports in compliance with the European Single Electronic Format (ESEF). Finally, the Statement highlights the importance of disclosure analysing the possible impacts of the decision of the United Kingdom to leave the EU on issuers' activities and their financial and non-financial information.

123. Overall, monitoring the way issuers address the priorities and recommendations in the 2020 ECEP Statement is part of the work programme of ESMA and European enforcers, who will consider these topics in their examinations of the 2020 annual financial reports

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[12] ESMA32-63-1041 Public Statement – *European common enforcement priorities for 2020 annual financial reports*, 28 October 2020
[13] Please refer to section 3.7.1.

and will summarise the findings in ESMA's 2021 report on the enforcement and regulatory activities of European enforcers.

3.3 Coordination of IFRS enforcement decisions

124. In 2020, 45 emerging issues were discussed in the EECS, constituting a slight decrease compared to last year where 53 emerging issues were discussed. As regards decisions, European enforcers submitted 42 decisions to the EECS database, 12 of which were discussed, compared to 48 decisions submitted and 26 discussed in 2019. A majority of the decisions that were not discussed in the EECS had previously been discussed in the group as emerging issues. Furthermore, other topics were presented and discussed in a number of roundtables and thematic reviews.

125. The discussions undertaken by European enforcers in the EECS, and the conclusions reached on that basis, are intended to improve the level of consistent application and enforcement of IFRS, subject to the specific facts and circumstances of the transactions discussed. The most common topics of discussion in the group concerned issues related to the application of the new accounting standards IFRS 15 *Revenue from Contracts with Customers,* IFRS 9 *Financial Instruments*, and IFRS 16 *Leases*, assessment of control in accordance with IFRS 10 *Consolidated Financial Statements* as well as the impact of the COVID-19 pandemic and of Brexit on the accounting in general. Below, ESMA presents a more detailed description of some topics which were discussed in the EECS during 2020. These examples are neither intended to represent all types of issues discussed nor all areas where the application of IFRS was challenged by European enforcers, but they serve to illustrate some of the issues found and discussed during the year.

126. In relation to the application of IFRS 15, the main issues discussed related to the application of IFRS 15 in specific industries, the assessment of whether an entity acts as an agent or a principal, the allocation of the transaction amount to multiple performance obligations, the timing of recognition of revenue in specific circumstances, the disaggregation of revenue, the impact of certain types of taxes collected from a customer on the measurement of revenue and the presentation of (unbilled) revenue on the balance sheet and in the income statement.

127. In relation to the application of IFRS 9, discussions in the EECS focussed on accounting for modifications related to IFRS 9 support measures, issues with regard to classification and measurement (e.g. in connection with POCI assets), uncertainties in the accounting for some specific refinancing transactions by banks. As in prior years, a dedicated, temporary task force discussed and shared experiences on the matters related to financial institutions, in particular on various aspects of the ECL measurement.

128. As in previous years, several issues related to consolidation methods and procedures were discussed as well. These covered mainly the assessment of control without the majority of voting rights as well as the necessity of preparation of consolidated statements in certain circumstances.

129. Finally, in relation to application of IFRS 16, ESMA focussed its discussions on the calculation of the discount rate and on the applicability of IFRS 16 or IFRS 9 in connection with the lease concessions under COVID-19.

3.4 EECS database

130. To enable sharing of enforcement decisions and experiences among enforcers, in 2005 ESMA's predecessor CESR set up an internal database to which enforcers submit decisions taken within their national enforcement process. According to ESMA's Guidelines on Enforcement of Financial Information, enforcers should submit their emerging issues and enforcement decisions if they meet the criteria defined in the Guidelines.

131. At the end of 2020, the EECS database contained 1,206 decisions and 611 emerging issues. As such, the database constitutes a large archive of knowledge, and European enforcers should consult the material in the database before they make significant enforcement decisions. Further information on this process is provided in Annex 1.

132. ESMA publishes enforcement decisions taken by European enforcers on a regular basis. The purpose of these publications is to help market participants understand which accounting treatments European enforcers consider to be non-compliant with IFRS on specific cases and as such to contribute to the consistent application of the standards. In the course of 2020, ESMA published one such extract from its enforcement database, containing eight enforcement decisions.[14] ESMA will continue to publish extracts from its enforcement database and notes that its published decisions are included in the database of the International Organization of Securities Commissions (IOSCO).

[14] ESMA32-63-845 Report – *24rd Extract from the EECS's Database of Enforcement*, 16 July 2019. Please note that as the decisions in the publication are based on the IFRS requirements in place at the time of preparation of the financial statements in question, some of them may now be out-of-date.

3.5 Main indicators of national enforcement activity regarding IFRS

133. To monitor European enforcement activity, ESMA collects data on the number of examinations performed and the number of actions taken by European enforcers. At the end of 2019, around 4,300 issuers preparing IFRS financial statements were admitted to trading on a regulated market, of which around 3,600 prepared IFRS consolidated financial statements and around 700 prepared only non-consolidated IFRS financial statements.[15] The examination and action rates presented in this section are based on these figures. Additionally, circa 50 issuers prepared consolidated financial statements under third country Generally Accepted Accounting Principles (GAAP) deemed equivalent to IFRS.

134. These numbers remained broadly stable over the course of 2020. At the end of 2020, approximately 4,200 issuers preparing IFRS financial statements were admitted to trading on a regulated market, of which around 3,500 prepared IFRS consolidated financial statements, and around 700 prepared only IFRS non-consolidated financial statements. For country-by-country information on the number of issuers, please refer to Annex 3.

135. Table 8 presents information on the number of issuers whose financial information was examined by European enforcers over 2020. As can be seen, in 2020 European enforcers performed 426 unlimited scope examinations of the financial statements of IFRS issuers, covering financial statements of around 10% of listed IFRS issuers in Europe (11% in 2019). In addition, the financial statements of 303 IFRS issuers were subject to focused examination, representing a coverage of around 7% of listed IFRS issuers (8% in 2019).[16]

136. Altogether, in 2020 the financial statements of 729 issuers, corresponding to 17% of issuers listed on European regulated markets preparing financial statements under IFRS, were subject to examination by European enforcers (19% in 2019). Of these, 689 IFRS issuers were subject to ex-post examinations (767 in 2019). Furthermore, European enforcers performed follow-ups of examinations completed in previous years on 207 issuers. Such follow-ups are not included in the statistics below. For more detailed information on examinations on a country-by-country basis, please refer to Annex 4.

[15] Since the United Kingdom withdrew from the EU on 1 February 2020, all figures presented in this section (including the comparative figures) do not include issuers from the United Kingdom.
[16] Please refer to Annex 1 for an explanation of what is included in an unlimited scope and a focused examination.

Table 8: *Issuers examined during 2020*

	Number of issuers examined			
	Unlimited scope	*Focused*	***Total 2020***	*Total 2019*
EXAMINATIONS OF FINANCIAL INFORMATION IN FINANCIAL REPORTS				
- ***Ex-post examinations***	404	285	**689**	767
Annual IFRS financial statements	383	247	**630**	716
Interim IFRS financial statements[17]	21	38	**59**	51
- ***Pre-clearances***	0	7	**7**	8
EXAMINATIONS OF FINANCIAL STATEMENTS IN PROSPECTUSES[18]				
Financial statements in prospectuses	22	11	**33**	35
Total number of issuers preparing IFRS financial statements subject to examination	426	303	**729**	810
Ex-post examinations of financial statements prepared using third country GAAP deemed equivalent to IFRS	3	0	**3**	4

137. Table 9 puts countries into clusters, depending on how many issuers prepare IFRS financial statements and are admitted to trading on a regulated market (see Annex 3 for more detail).

Table 9: *IFRS issuers per country at 2019 year-end*

Number of IFRS issuers	Countries
1-99	Austria, Cyprus, Czech Republic, Estonia, Hungary, Iceland, Ireland, Latvia, Lithuania, Malta, Portugal, Romania, Slovakia, Slovenia
100-249	Belgium, Croatia, Denmark, Finland, Greece, Italy, Luxembourg, Netherlands, Spain
250-399	Bulgaria, Norway, Poland, Sweden
≥400	France, Germany

[17] Where both the interim and annual financial statements of an issuer were examined, only the latter examination is counted.

[18] Please note that only examinations of financial statements in prospectuses related to initial public offerings (IPOs) and first admissions to trading carried out in accordance with Guideline 6 of ESMA's Guidelines on Enforcement of Financial Information are counted in these statistics. Please find more information on prospectus examinations in Annex 4.

138. Table 10 shows that enforcers took actions in 38% of the ex-post examinations performed during 2020 (33% in 2019).

Table 10: *Examinations and actions for IFRS issuers in 2020*

	Issuers per cluster - end of 2019	Issuers subject to unlim. scope exam.	Unlim. scope exam. rate	Issuers subject to exam.	Exam. rate[19]	Issuers subject to ex-post exam.	Issuers for which actions were taken	Sample action rate[20]
1-99 issuers	1,095	147	**13%**	218	**20%**	213	88	**41%**
100-249 issuers	1,347	126	**9%**	241	**18%**	225	82	**36%**
250-399 issuers	991	53	**5%**	135	**14%**	123	43	**35%**
>400 issuers	861	100	**12%**	135	**16%**	128	52	**41%**
2020 indicators	**4.294**	**426**	**10%**	**729**	**17%**	**689**	**265**	**38%**
2019 indicators	*4,377*	*453*	*10%*	*810*	*19%*	*767*	*253*	*33%*
2018 indicators	*4,538*	*539*	*12%*	*842*	*19%*	*780*	*248*	*32%*
2017 indicators	*4,641*	*600*	*13%*	*993*	*21%*	*857*	*274*	*32%*

139. Table 11 illustrates the overall distribution of the actions taken by European enforcers during 2020 across the type of action, the type of financial statement and the type of issue to which they related. As in the previous year, in around 20% of the actions taken, European enforcers required issuers to make immediate disclosure to the market by way of reissuance of the financial statements or the publication of a corrective note, while in the remaining 80% of actions enforcers considered a correction in the future financial statements sufficient. Please refer to Annex 5 for the disaggregated number of actions per country.

[19] Number of issuers examined divided by total number of issuers.

[20] Number of issuers for which actions were taken divided by number of issuers subject to ex-post examination.

140. Around 38% of the actions taken during 2020 related to issues regarding recognition and / or measurement, while 62% of the actions related only to disclosure issues.

Table 11: *IFRS issuers for which actions were taken*[21]

	Relating to recognition and / or measurement		Relating only to disclosure[22]		Total
	Annual IFRS financial statements	*Interim IFRS financial statements*	*Annual IFRS financial statements*	*Interim IFRS financial statements*	
Require a reissuance of financial statements	4	4	1	0	**9**
Require a public corrective note	28	2	12	5	**47**
Require a correction in future financial statements	66	1	123	19	**209**
Total 2020	**98**	**7**	**136**	**24**	**265**
Total 2019	*79*	*8*	*156*	*10*	*253*
Total 2018	*89*	*23*	*115*	*21*	*248*
Total 2017	*175*		*99*		*274*

[21] If an enforcer took two enforcement actions on the same issuer (e.g. required a corrective note and a correction in future financial statements), only the most severe action is counted.
[22] Actions defined as relating to disclosure only are those actions requiring further disclosure or changes in the disclosure provided (including changes in the figures) but also include presentation issues which do not relate to measurement or recognition.

141. Lastly, Figures 7 and 8 present the areas in which enforcers took actions in 2020, relating to issues with recognition and / or measurement and issues with disclosure. In relation to both, as in 2019, most actions were taken in the four areas of financial instruments, impairment of non-financial assets, presentation of financial statements and issues relating to revenue.[23]

***Figure 7:** Areas addressed with enforcement actions in 2020 (issues with recognition and / or measurement)*

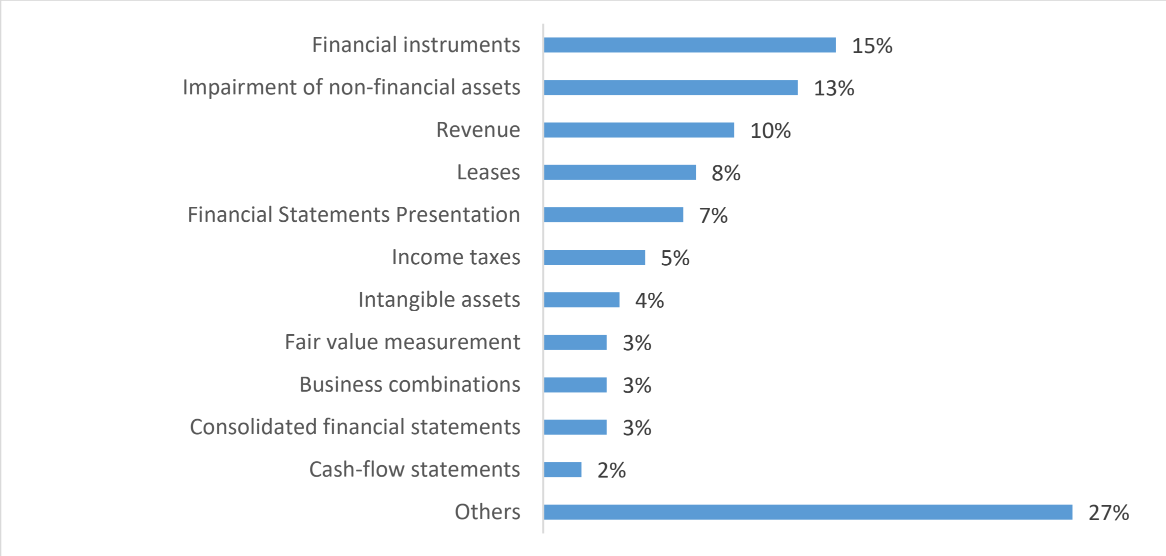
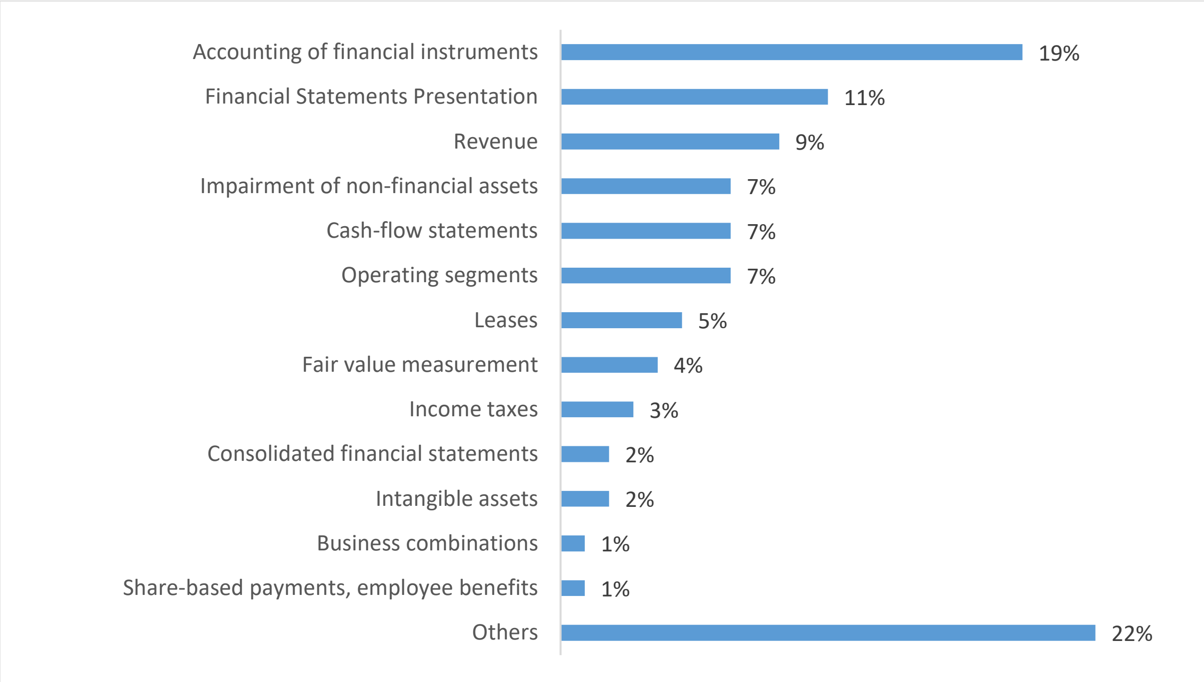


***Figure 8:** Areas addressed with enforcement actions in 2020 (issues with disclosure)*



[23] With respect to recognition on the one hand and presentation and / or disclosure on the other hand.

3.6 Main indicators of national enforcement activity regarding other parts of the annual and interim financial reports

142. In addition to monitoring the level of enforcement activity across the EEA in relation to IFRS annual and interim financial statements, ESMA furthermore collects data on enforcement activity related to APMs and non-financial statements. This data is described in the following sections.

3.6.1 Non-financial statements

143. In most EEA countries, 2020 was the third year in which European enforcers examined non-financial statements drawn up based on the provisions of the Accounting Directive relating to the non-financial statement (Articles 19a and 29a). The number of listed issuers within the scope of these articles in 27 of the 30 EEA countries was around 1,982 at the end of 2019.[24]

144. During 2020, European enforcers undertook 737 examinations of non-financial statements. Examinations were distributed across issuers who included the non-financial statement in the annual management report and issuers who presented it as a separate document. Some examinations related to checking only whether the non-financial statement had been prepared ('existence only' – 69%) while other examinations furthermore related to checking whether the information provided in the non-financial statement met the requirements of Articles 19a and 29a of the Accounting Directive ('existence and content' – 31%). Combining the two kinds of examination, the examination rate in 2020 was 37%. The table below provides the detailed breakdown of the examinations performed during 2020.

Table 12: *Issuers examined for the purpose of the amended Accounting Directive*[25]

	Existence only	Existence and content	Total
Non-financial statement included in annual management report	275	1247	**422**
Non-financial statement presented as separate document	215	100	**315**
Total	**490**	**247**	**737**

[24] Ireland, Liechtenstein and Norway are not covered by this number. For some countries, only data estimates made on a best-effort basis were available. Since the United Kingdom withdrew from the EU on 1 February 2020, all figures presented in this section (including the comparative figures) do not include issuers from the United Kingdom.

[25] The examinations do not include issuers from Croatia, Cyprus, Ireland, Norway and Liechtenstein. In the three former countries, the European enforcers does not have powers relating to the non-financial statement. In Norway, the Accounting Directive, including Articles 19a and 29a, is not yet finally transposed into national legislation. Enforcers in Greece, Hungary, Germany and Sweden examined only whether the non-financial statement had been prepared ('existence only').

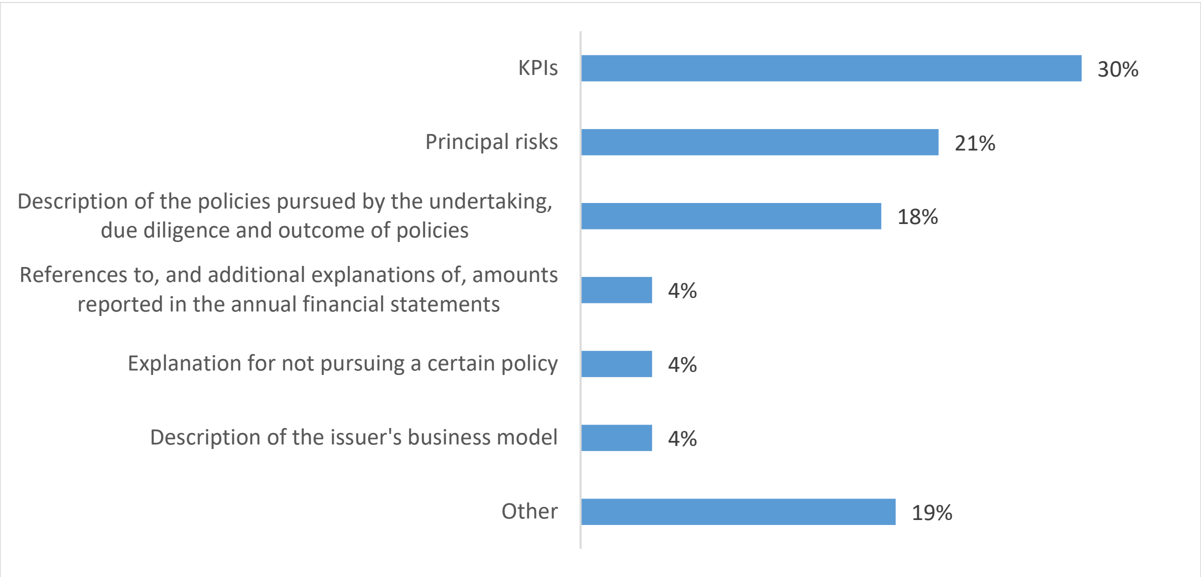
145. As detailed further in Table 13, the 737 examinations of non-financial statements in 2020 led to 39 enforcement actions, causing an action rate of 5%. All actions required the issuer to make a correction in a future non-financial statement. Please note that one enforcement action can relate to multiple areas of non-compliance. The decrease of the action rate compared to the previous year (10%), when non-financial statements were examined for the first time, reflects issuers' increased awareness of the requirements of Articles 19a and 29a of the Accounting Directive.

Table 13: *Enforcement measures undertaken regarding the non-financial statement*

	Non-financial statement included in annual management report	Non-financial statement presented as separate document	Total
Require a reissuance of the non-financial statement	0	0	**0**
Require a public corrective note	0	0	**0**
Require a correction in future non-financial statement	36	3	**39**
Total actions	**36**	3	**39**
Other measures	3	0	**3**

146. The following figure illustrates the topics on which enforcement actions were taken during 2020. Half of all actions related to disclosure – or the lack thereof – regarding KPIs and the issuer's principal risks.

Figure 9: *Areas addressed with enforcement actions in 2020*



3.6.2 Alternative Performance Measures

147. ESMA's Guidelines on APMs set out principles for the presentation and disclosure of performance measures outside financial statements, such as labels, reconciliations, and definitions, to ensure that issuers comply with the 'true and fair view' principle when publishing APMs. During 2020, European enforcers examined 611 management reports to evaluate the presentation and disclosure of APMs.[26] Over 90% of the examinations covered all principles of the Guidelines. Table 14 presents more detail on the examinations.

Table 14: *Issuers examined for the purpose of the APM Guidelines*

	All principles of the Guidelines	Selected principles of the Guidelines	Total
Annual management report	485	42	**527**
Interim management report	77	7	**84**
Total	**562**	**49**	**611**

148. Table 15 further summarises the examinations undertaken by enforcers in 2020 related to the annual and interim management reports of IFRS listed issuers. The table divides EEA countries into the same clusters used in section 3.5 and shows the examination rate – i.e. the proportion of issuers examined – and the action rate – i.e. the proportion of examinations that led to an action. The overall examination rate was largely stable, at 14% compared to 15% in 2019, and the overall action rate was at 15% compared to 13% in previous year.

Table 15: *Examinations and actions regarding management reports of IFRS issuers related to APMs*

	Issuers per cluster – end of 2019	Total issuers subject to examinations	Examination rate[27]	Total issuers for which actions were taken	Action rate[28]
1-99 issuers	1,095	219	**20%**	40	**18%**
100-249 issuers	1,347	138	**10%**	16	**12%**
250-399 issuers	991	126	**13%**	23	**18%**
≥400 issuers	861	128	**15%**	14	**11%**
Total	**4,294**	**611**	**14%**	**93**	**15%**

[26] Since the United Kingdom withdrew from the EU on 1 February 2020, all figures presented in this section (including the comparative figures) do not include issuers from the United Kingdom.
[27] Number of issuers examined divided by total number of issuers.
[28] Number of issuers for which actions were taken divided by number of examinations carried out.

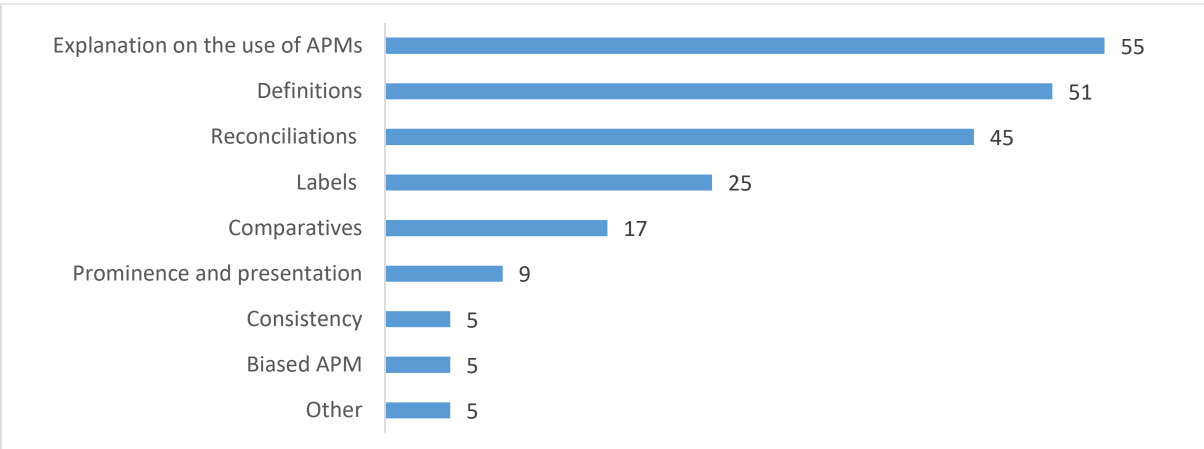
149. Providing further detail regarding the actions taken on the management reports of listed IFRS issuers in 2020, Table 16 shows whether actions related to the annual or the interim management report and which type of action was taken. As in 2019, the large majority of actions consisted of enforcers requiring a correction in a future management report. Please note that one enforcement action can relate to multiple areas of non-compliance.

Table 16: *Management reports of IFRS issuers for which actions were taken*

	Annual management report	Interim management report	Total
Require a reissuance of the management report	3	1	4
Require a public corrective note	6	0	**6**
Require a correction in future management report	51	26	**77**
Other measures	6	0	**6**
Total	66	**27**	**93**

150. Lastly in relation to the activities undertaken by European enforcers during 2020, the below figure illustrates the topics on which enforcement actions related to compliance with ESMA's APM Guidelines were taken. The figure shows that, similar to last year, the areas in which most infringements were identified were reconciliations, definitions and explanations, closely followed by labels.

Figure 10: *Areas addressed with enforcement actions in 2020*



3.7 Other activities related to supervisory convergence

3.7.1 COVID-19 related publications

151. Following the outbreak of COVID-19 pandemic in early 2020, ESMA published several Public Statements and other publications related to the COVID-19 implications on financial reporting.

152. In the Public Statement[29] published on 11 March 2020, ESMA urged issuers to provide transparency on the actual and potential impact of COVID-19 in their 2019 year-end financial report if these had not yet been finalised or otherwise in their interim financial reporting disclosures.

153. On 25 March 2020, ESMA released a Public Statement[30] on some accounting implications of the economic support and relief measures adopted by EU Member States in response to the COVID-19 outbreak. The Statement provided guidance to issuers and auditors on the application of IFRS 9, specifically as regards the calculation of expected credit losses and related disclosure requirements.

154. In order to mitigate the impact of COVID-19 on the EU financial markets regarding publication deadlines under the Transparency Directive, in the Public Statement[31] published on 27 March 2020, ESMA recommended that enforcers do not prioritise supervisory actions against issuers in respect of some upcoming deadlines. ESMA also urged issuers to inform the market of potential delays and provide transparency on the reasons for delays and the expected publication date.

155. On 17 April 2020, ESMA provided guidance[32] to issuers in the form of a Q&A on the application of ESMA's APM Guidelines in the context of the COVID-19 pandemic.

156. On 20 May 2020, ESMA published a Public Statement[33] addressing the implications of the COVID-19 pandemic on the half-year financial reports which especially highlighted the importance of:

    - providing relevant and reliable information, which may require issuers to make use of the time allowed by national law to publish half-yearly financial reports while not unduly delaying the timing of publication;

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[29] ESMA71-99-1290 Public Statement -- *ESMA recommends action by financial market participants for COVID-19 impact*, 11 March 2020
[30] ESMA32-63-951 Public Statement -- *Accounting implications of the COVID-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9*, 25 March 2020
[31] ESMA31-67-742 Public Statement -- *Actions to mitigate the impact of COVID-19 on the EU financial markets regarding publication deadlines under the Transparency Directive*, 27 March 2020
[32] ESMA32-51-370 Questions and answers -- *ESMA Guidelines on Alternative Performance Measures (APMs)*, 17 April 2020
[33] ESMA32-63-972 Public Statement -- *Implications of the COVID-19 outbreak on the half-yearly financial reports*, 20 May 2020

- updating the information included in the latest annual accounts to adequately inform stakeholders of the impacts of COVID-19, in particular in relation to significant uncertainties and risks, going concern, impairment of non-financial assets and presentation in the statement of profit or loss; and

- providing entity-specific information on the past and expected future impact of COVID-19 on the strategic orientation and targets, operations, performance of issuers as well as any mitigating actions put in place to address the effects of the pandemic.

157. In order to address difficulties in accounting for the large volumes of lease modifications encountered by issuers, on 21 July 2020, ESMA recommended[34] coordination of supervisory action with regards to issuers' accounting for COVID-19-related rent concessions.

3.7.2 Fact-finding exercise on the COVID-19 implication

158. In order to assess the application of IFRS requirements highlighted in the ESMA Statement on implications of the COVID-19 outbreak on the half-year financial reports, during 2020 European enforcers conducted a fact-finding exercise and examined the half-yearly financial reports of 74 issuers from 26 Member States. This fact-finding exercise was carried out mainly through desktop examinations and thematic reviews (93%), focusing primarily on the disclosures provided in half-year financial statements and management reports to assess the impact that the COVID-19 pandemic had on the financial information and operations of listed issuers.

159. Although ESMA acknowledges that the COVID-19 pandemic affected all sectors and industries, the extent of the impact differed from sector to sector and from industry to industry. Therefore, the fact-finding exercise focussed on sectors expected to be more directly affected, such as consumer discretionary (e.g. leisure, entertainment, airline industry), energy (e.g. oil and gas), materials, construction and the financial sector.

160. Information about the sectors and market capitalisation of the issuers in the sample is presented in the graphs below.

[34] ESMA32-61-417 Public Statement -- *Actions to mitigate the impact of COVID-19 on the EU financial markets – Coordination of supervisory action on accounting for lease modifications*, 21 July 2020

Figure 11: *Sample of issuers by sector of activity*

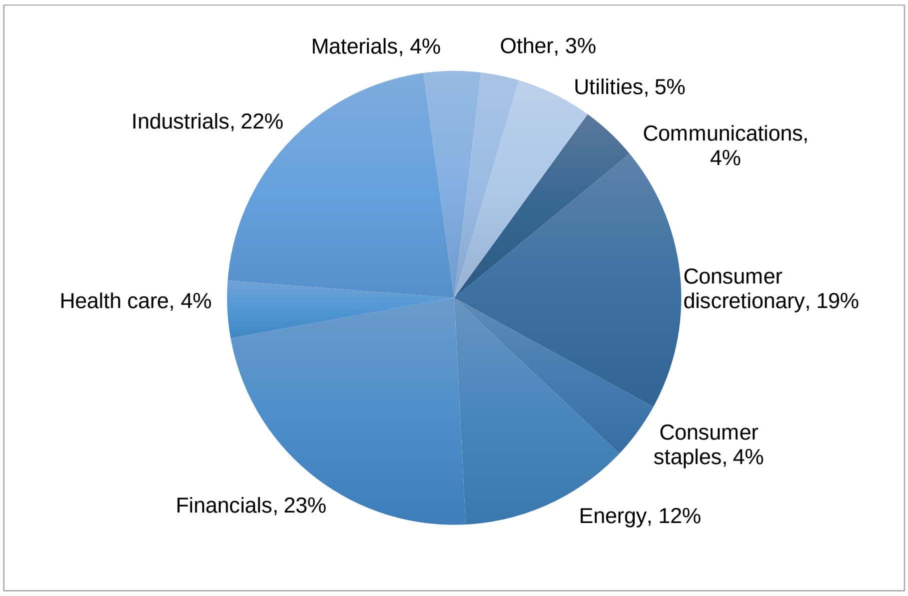
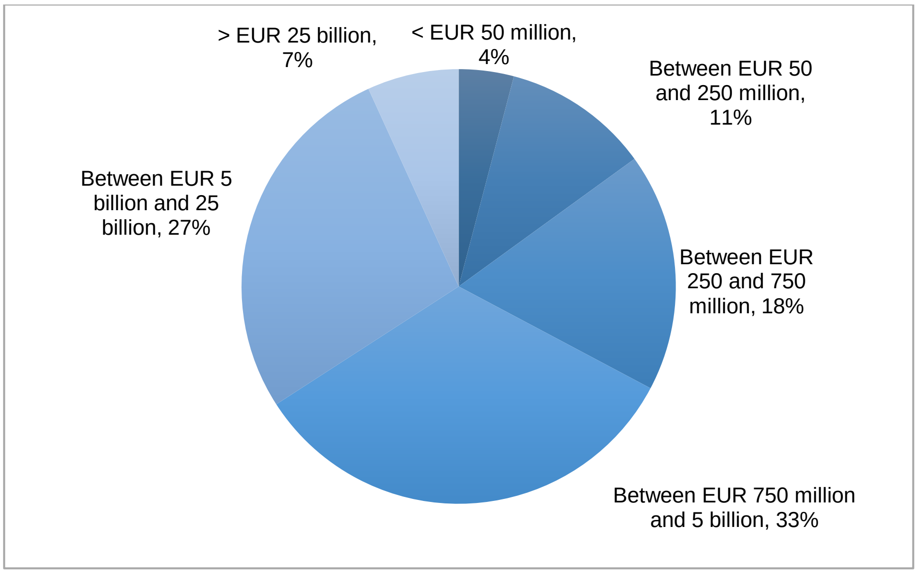


Figure 12: *Sample of issuers by market capitalisation (n=74)*



Analysis of information provided

Impact of the COVID-19 pandemic in the statement of profit or loss

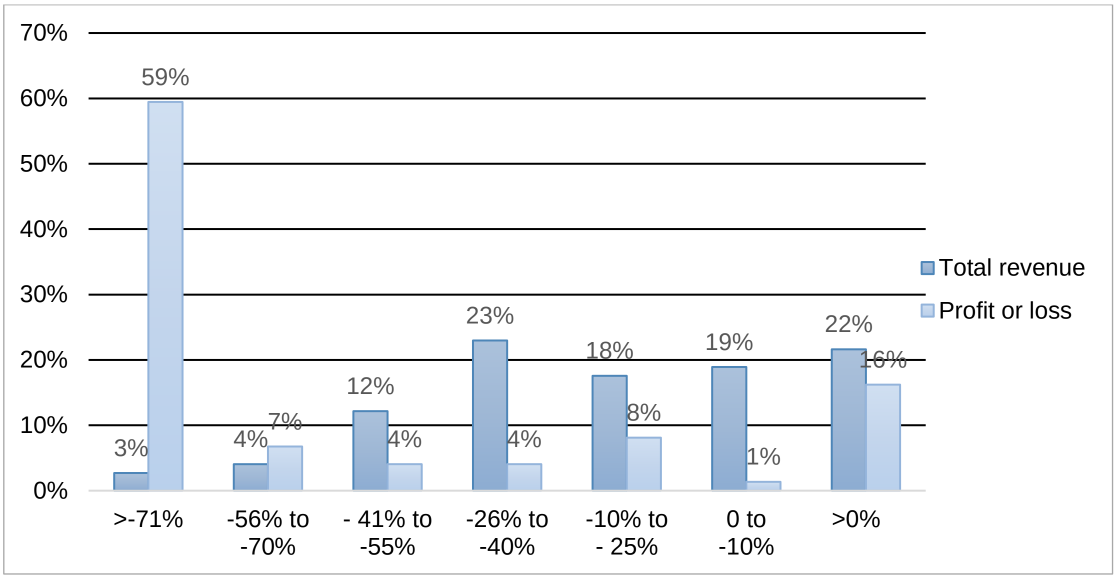
161. ESMA observed that 78% of the issuers in the sample presented a decrease in the total of revenues[35] in the first half of 2020 compared to the total of revenues recognised in the first half of 2019. 22% of the issuers in the sample (half of them financial companies) were able

[35] Net interest income for financial institutions.

to maintain or increase their revenues. While some of these developments may relate to other factors such as changes in the accounting consolidation perimeter, 40% of the issuers in the sample indicated that the variation of their half-yearly revenue was mainly attributed to the COVID-19 pandemic.

162. As regards the profit or loss account, ESMA also observed that not only did 84% of issuers in the sample report a decrease in half year earnings when compared to the first semester 2019, but 59% of those issuers reported a negative performance of more than 70%. While it seems obvious that airlines and travel companies were harshly hit by the pandemic, the oil & gas sector (due to the drop in oil and gas prices as a result of the global economic slowdown and the imbalance between supply and demand) the automotive industry and various industrials were also strongly negatively affected. Although financials and healthcare were the main sectors with growth, in some cases, financials also recognised losses.

Figure 13: *Variation of half-yearly total revenue (net income) and profit or loss between 2020 and 2019*



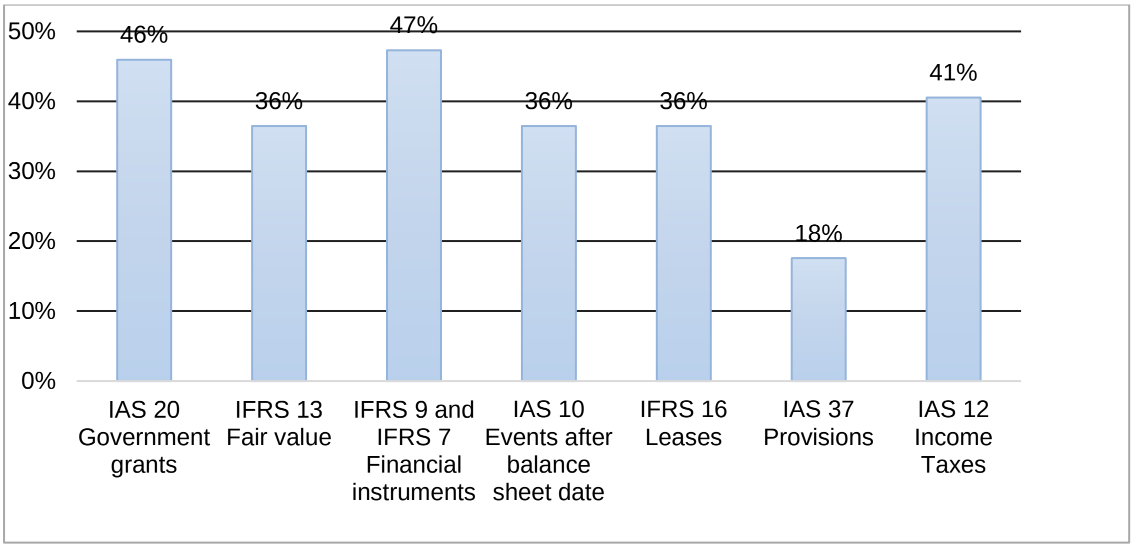
Risks, judgements and uncertainties

163. Considering that the COVID-19 outbreak had a serious impact on the operations of many issuers and may have triggered new financial risks and taking into account various relief and support measures in connection with the pandemic, ESMA recommended that issuers provide relevant disclosures on government assistance, provisions, financial instruments, fair value measurement, leases or events occurring after the balance sheet date. According to the data collected, around 46% of issuers in the sample disclosed information regarding government assistance in accordance with IAS 20. This information concerned grants received in connection with short-term lay-off programmes and reductions in costs related to employment benefits such as social security.

164. 47% of the issuers in the sample considered it relevant to provide additional disclosures related to financial instruments according to IFRS 7, e.g. information on adjustments of

assumptions in the expected loss model (for banks) or information on moratoria granted by financial institutions. 41% of issuers provided information on deferred tax assets (DTA) arising from tax losses such as DTA recognised during the reporting period or write offs of previously recognised DTA as a result of reassessments of the recoverability of DTA.

Figure 14: *Issuers in the sample that provided additional disclosures (n=74)*



165. Looking at the quality of the disclosures provided by issuers, where the issuer expanded the minimum disclosures required by IAS 34 to include disclosures under IAS 10, IAS 12, IAS 20, IAS 37, IFRS 7, IFRS 9, IFRS 13 and IFRS 16, the European enforcers considered the information provided as informative in 66% of cases. Shortcomings were however identified regarding the disclosures of the assumptions used to support the recognition of DTA arising from tax loses, to support the recognition of provisions related to restructuring plans or disclosures on leases moratoria or waivers.

166. The disclosures of 22% of issuers included information on the going concern assumption. Among those issuers in the sample that provided information on going concern, 80% provided complete and informative information such as information on the measures (to be) taken to address the uncertainties (such as negotiations regarding bank covenants, moratoria, postponements of planed investments, recapitalisations or cost reduction programmes). However, 20% of issuers failed to provide entity-specific or useful information on the risks and uncertainties surrounding their ability to operate on a going concern basis. ESMA observed that 95% of issuers identified as having going concern issues on the basis of the 2020 half-year financial statements had not disclosed such uncertainties in the 2019 annual financial statements. This finding leads ESMA to conclude that the COVID-19 pandemic was the main reason why the issuers had doubts about going concern in 2020 semi-annual financial reports.

167. When depicting the impact of the COVID-19 pandemic in the interim financial reports on major uncertainties and risks, 15% of the issuers in the sample disclosed breaches of covenants and 19% reported renegotiation of loan contracts. ESMA welcomes the fact that, as recommended by ESMA, 72% of issuers in the sample provided information on liquidity

risk, 61% of issuers provided disclosures on changes in the credit risk and 36% of the issuers included additional disclosures regarding other risks in accordance with IFRS 7.

168. In 70% of the cases, the disclosures on the nature and extent of risks arising from financial instruments were considered complete and informative (e.g. issuers disclosed the maturity of financial liabilities, back up measures, the existence of credit facilities). However, European regulators also encountered shortcomings in the breakdown of financial debt maturities, in information on the use of moratoria or wavers in relation to loan repayments or in the presence or absence of covenants breaches, in particular where there were significant decreases in profitability.

169. Information was also missing in some cases with regard to credit risk. European supervisors expected issuers to provide information on how they manage and monitor the increase in credit risk and how the increase in credit risk affects their business, where relevant. This disclosure was particularly missing in some sectors which were heavily impacted by the outbreak, such as automotive or consumer discretionary. ESMA emphasises that issuers need to improve their disclosures by supplementing the quantitative information disclosed with qualitative analysis of how they monitor and manage the increase in credit risk.

Impairment of non-financial assets

170. The fact-finding exercise concluded that out of 74 issuers whose half year financial reports were analysed, 44 issuers (59%) disclosed that an impairment test on non-financial assets had been performed. Looking at the disclosures provided in the context of impairment of non-financial assets according to IAS 36, 50% of the issuers that performed the impairment test provided quantitative and qualitative information on the financial assumptions used in the impairment test, such as the discount rate used. 16% provided only quantitative information, whereas 7% only included qualitative information on financial assumptions used. 27% of the issuers in the sample that performed an impairment test did not provide any information on the financial assumptions used.

171. As regards operational assumptions (such as performance indicator growth rate) used in the impairment test, 34% of issuers that performed an impairment test for the half-year financial report provided quantitative and qualitative information on the operational assumptions used (such as growth rate EBITDA margins, timing to return to pre-crisis cash-flows, GDP growth estimates). 18% of issuers only provided narrative information and 16% only included quantitative information. 32% of the issuers in the sample that performed an impairment test did not disclose any information on the operational assumptions used.

172. 18% of the issuers that performed an impairment test disclosed that multiple scenarios were used to determine whether an impairment of non-financial assets should be recognised and 43% of issuers provided explanations on changes to the assumptions used or how the assumptions were determined.

173. Regarding disclosures of sensitivity analyses, 48% of the issuers that performed an impairment test for their interim financial statements disclosed informative and complete

sensitivity analyses for the key assumptions used (discount rate used, long term growth rate, revenue). 27% did not disclose sensitivity analyses or these sensitivity analyses were considered inadequate or not informative. For 25% of the issuers that performed an impairment test, it was not possible to determine whether sensitivity analyses should have been provided (for example, because the headroom was significantly high so as to accommodate changes in the assumptions used). Only 18% of the issuers that performed an impairment test changed the assumptions (or the ranges of assumptions) used in the sensitivity analyses compared to information disclosed in the 2019 annual financial statements.

Presentation of COVID-19-related items in the statement of profit or loss

174. ESMA welcomes the fact that, as recommended in the ESMA statement, none of the issuers in the sample modified subtotals included inside financial statements to depict the effect of COVID-19. In addition, none of issuers in the sample reported changes in the classification of liabilities, i.e. changes in the classification of liabilities from "non-current" to "current", e.g. due to breach of covenants.

175. While 58% of the issuers in the sample included information in the notes to the half-year financial statements on the main impacts of the pandemic, 60% also included information on the assumptions used to determine the impact of COVID-19 in their financial statements. Amongst the assumptions disclosed by issuers to explain the impact of COVID-19, ESMA highlights information on the assumptions used when determining the recoverability of DTAs, the recognition of asset impairment and provisions, restructuring programmes, or the quantitative assumptions for forward-looking information (in the baseline scenario) applied in ECL-models. 51% of the issuers that included information on the impact of the COVID-19 pandemic in their financial statements aggregated all the information regarding the impact of COVID-19 in one single note.

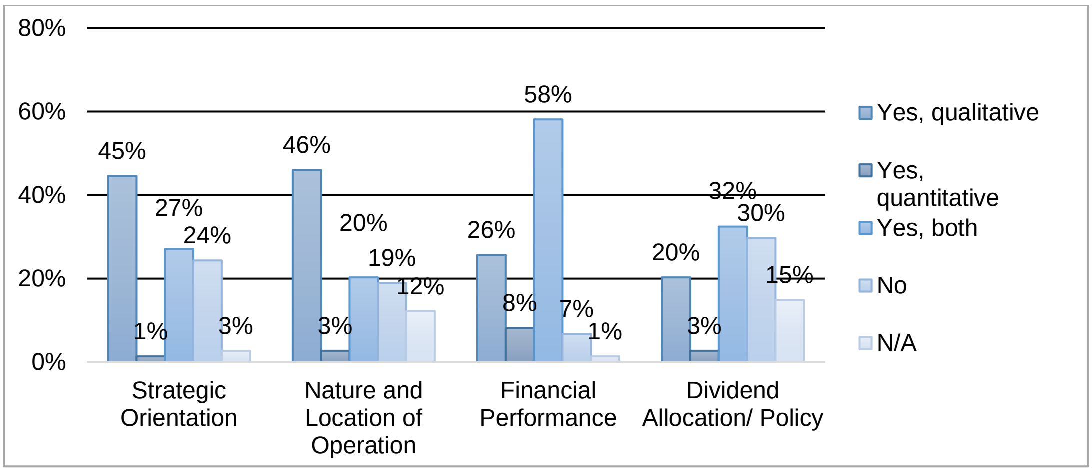
Interim management reports

176. Looking finally at the information on the impact of COVID-19 included in the management report, ESMA highlights that all issuers in the sample disclosed information on the impact of the pandemic. Disclosures ranged from general narrative information to entity specific disclosures such as cost incurred as a result of the pandemic (e.g. costs related to sanitation or additional equipment to allow employees to work from home) and the impact of the pandemic on market prices of goods sold.

177. ESMA found that 92% of issuers in the sample provided qualitative or/and quantitative disclosures on the impact of the pandemic on the company's financial performance. Of the issuers that reported on the impact of COVID-19, 63% did so on both a qualitative and a quantitative basis, 28% reported only on a quantitative basis, and 9% only on a qualitative basis. In addition, 73% of issuers in the sample disclosed in their interim management reports pandemic-related impacts on strategic operations and future targets (or future outlook/target) and 69% provided information on how the pandemic affected the nature and location of their operations (e.g. disruptions of supplier chains or lockdowns). In these cases, qualitative reporting prevailed with 61% and 67% of all reports, respectively. Lastly,

only 41 issuers (55%) reported on adjustments or modifications of their dividend allocation and/or dividend policies due to COVID-19, 59% of which did so both qualitatively and quantitatively. In some cases, issuers reported that no dividends were paid in 2019, particularly issuers in the financial sector.

Figure 15: *Disclosure on Impact of COVID-19 pandemic in the interim management Repors (n=74)*



178. 81% of issuers disclosed information on measures that were taken to mitigate the impact of the pandemic on their financial operations and performance. In this regard, many issuers reported actions undertaken to reduce costs, as well as changes to the IT systems which enabled workers to work from home. Some of the issuers that did not report on this topic indicated that they were not significantly affected by the pandemic and therefore no mitigating actions were necessary.

179. 57% of the issuers disclosed the expected future impact of the pandemic on their financial performance and position, as well as measures undertaken to mitigate future risks in their interim management report. In many cases, management focussed on investment redeployment, projected profitability, and whether debt covenants might be breached. Many issuers reported including projected long-term effects of the pandemic into their decisions, while others focussed on the short-term impact, such as a ‘second wave’ of the pandemic. Issuers that did not report on the future impact on COVID-19 often referred to the high level of uncertainty regarding future developments.

180. 39% of issuers provided narrative information on the estimates, judgements and assumptions used to determine the future impact of COVID-19 on their business, as wells as how the uncertainties affected their estimates and future strategy. Many issuers emphasised the uncertainty of estimates given the still-evolving situation, while others used various scenarios to support their assumptions. The remaining 61% did not provide narrative information on their assumptions, either because they did not disclose estimates related to the pandemic in the first place or because of the aforementioned uncertainty.

181. ESMA welcomes the fact that 96% of issuers in the sample of 74 issuers did not introduce new APMs or change existing APMs due to COVID-19. Of the three issuers that modified

their APMs, two of them fully or partially complied with the APM Guidelines disclosure principles.

Enforcement actions

182. The fact-finding exercise was mainly based on thematic reviews or desktop examinations. When conducting examinations of these types, enforcers do not contact issuers in order to obtain further information to assess the issuer's rationale for the information disclosed, or to determine whether a material infringement has been identified. Instead, European regulators assess the quality of disclosures based on the consistency and comprehensibility of the information included in the financial report. On this basis, the number of actions resulting from this fact-finding exercise is rather limited when compared to the interactive examinations where enforcers contact issuers to obtain documentation or clarifications on the information contained in the financial reports.

183. European enforcers took five enforcement actions against the issuers in the sample requiring corrections in the future financial statements. Enforcement actions notably related to insufficient disclosures of the assumptions and judgements made by issuers with respect to the recognition and measurement of deferred tax assets arising from tax losses, the assumptions used when performing the impairment tests and the related sensitivity analysis, the information included in the management report on the impact of COVID-19 and the measures taken to address its potential consequences and on actions regarding issuers compliance with the APM Guidelines.

3.7.3 Wirecard Fast Track Peer Review

184. Following the collapse of the German fintech company Wirecard, in June 2020, the European Commission invited ESMA to carry out a fact-finding analysis of the events leading to the collapse of Wirecard and of the supervisory response of the German authorities in the area of financial reporting.

185. In the Public Statement[36] issued in July 2020, ESMA announced the launch of a Fast-Track Peer Review assessment focussing on the application of the Guidelines on the Enforcement of Financial Information (GLEFI) by BaFin and FREP, the designated competent authorities for the supervision and enforcement of financial information in Germany, and on potential impediments to the effectiveness of the German two-tier supervisory system for financial reporting in the specific context of the Wirecard case.

186. The Peer Review Report[37] identified deficiencies in the application of the GLEFI in the areas of independence of BaFin from issuers and government, market monitoring by both

[36] ESMA71-99-1364 Public Statement – *ESMA to assess German financial reporting system following Wirecard collapse,* 15 July 2020
[37] ESMA42-111-5349 Peer Review Report – *Fast Track Peer Review on the application of the Guidelines of the Enforcement of Financial Information (ESMA/2014/1293) by BaFin and FREP in the context of Wirecard,* 3 November 2020; ESMA71-99-1423 Questions and Answers – *Fast Track Peer Review on the Wirecard Case,* 3 November 2020

BaFin an FREP, and FREPs examination procedures. In addition, with regards to the effectiveness of the supervisory system in the area of financial reporting, ESMA identified inefficiencies and legal and procedural impediments around BaFin and FREP's respective roles regarding fraud, the basis and circumstances for BaFin to take over an examination from FREP based on the notion of "substantial doubt" as to how FREP was carrying out the examination, the strong confidentiality regime to which both institutions were bound (which may hinder the exchange of relevant information between them and with other relevant bodies) and the exchange of information with BaFin.

3.7.4 European Single Electronic Format

187. For ESMA's activities related to the ESEF during 2020, please refer to section 4.2.

3.7.5 Consolidated list of issuers under the Transparency Directive

188. Since Q1 2016, for internal purposes ESMA has prepared a consolidated list of issuers whose securities are admitted to trading on a regulated market in the EU and who are as such subject to Directive 2004/109/EC (the Transparency Directive).[38] The list is prepared twice per year with the objective of identifying the home Member State of all issuers under the Transparency Directive and as such ensuring that there is no duplication or absence of supervision of issuers. The list is accompanied by a methodological framework which provides guidance on how and when European enforcers may cooperate with each other and contact issuers for the identification and disclosure of their home Member State. During 2020, ESMA continued to collect information from enforcers and provide guidance to address any inconsistency identified in relation to the list. In particular, ESMA updated the guidance on the choice of home Member State under the Transparency Directive after the end of the UK's transition period for leaving the EU.

3.8 Work programme for 2021

189. In 2021, ESMA will continue its activities in the area of corporate reporting with the objective of promoting a harmonised application of the rules in place to ensure transparency of financial and non-financial information. As usual, this will include drawing up a statement on European Common Enforcement Priorities as well as organising discussions among, and coordinating the enforcement activities of, European enforcers.

190. In the area of financial reporting, particular attention will continue to be paid to the implications of the COVID-19 pandemic as well as to consistent enforcement of the new

[38] 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 and amending Directive 2001/34/EC, OJ L 390, 31.12.2004, p. 38

standards (IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*) which were applied for the first time in 2018 or 2019.

191. ESMA will furthermore publish a review of accounting practices on IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interest in Other Entities* conducted in 2020. This report will form part of ESMA's response to the IASB's post-implementation review of those standards.

192. As regards non-financial reporting, ESMA will continue to engage in specific activities to foster supervisory convergence in this area, including discussion of the developments and issues, setting up and following up on considerations highlighted in the ECEP. ESMA will also continue monitoring the work of the EFRAG Corporate Reporting Lab and providing input from the enforcement perspective to the discussions of the Lab's Steering Group in which ESMA participates as official observer.

193. In relation to APMs, ESMA will monitor the market's developments in light of the COVID-19 pandemic and will consider whether further actions are needed on this basis.

194. In the area of electronic reporting, ESMA's main activities will follow from the work it undertook in 2020. As such, ESMA will address any implementation issues which arise from the regulatory technical standards (RTS) and Reporting Manual on the ESEF and will generally monitor market developments to assess the need for any further support to market participants in this area. Furthermore, ESMA will coordinate the activities of European enforcers with a view to promoting a convergent and robust implementation of the ESEF Regulation.[39]

195. In addition, ESMA will continue to contribute to the work of the Committee of European Audit Oversight Bodies (CEAOB) by facilitating further cooperation and dialogue between securities regulators and audit oversight bodies at the European level.

196. Please find more information regarding the supervisory convergence work planned in the area of corporate reporting in section 3.1.9 of ESMA's Annual Work Programme for 2021.[40]

[39] Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standard son the specification of a single electronic reporting format, OJ L 143, 29.5.2019, p. 1-792

[40] ESMA20-95-1273 *2021 Annual Work Programme*, 2 October 2020

4 Single rulebook

4.1 Contribution to accounting standard-setting

4.1.1 Contribution to the European endorsement process

197. In 2020, ESMA continued to be actively involved in the work of the European Financial Reporting Advisory Group (EFRAG) by participating as an official observer in the activities of EFRAG's Board and in its Technical Expert Group (TEG), where ESMA addressed the enforceability of standards and shared the experience of European enforcers on the application of IFRS in Europe.

198. Furthermore, ESMA continued to contribute actively to the European endorsement process by participating as an official observer in the Accounting Regulatory Committee.

199. ESMA published three letters providing feedback on EFRAG's draft comment letters addressing the IASB exposure drafts (EDs) on proposed amendments to IAS 16,[41] on new proposals for presentation and disclosures in financial statements[42] and to address the second phase of the IBOR reform,[43] respectively. ESMA also provided comments on EFRAG's draft letter on the IASB discussion paper (DP) *Business Combinations – Disclosures, Goodwill and Impairment*.[44]

4.1.2 Cooperation with the IASB

200. As in previous years, throughout 2020 a permanent ESMA working group composed of IFRS experts from 14 different European enforcers together with ESMA staff met regularly to discuss major accounting projects. On this basis, ESMA submitted four letters to the IASB on the EDs and DP already mentioned in section 4.1.1.

201. Furthermore, the EECS met twice with representatives of the IASB and the IFRS IC in order to discuss complex issues identified by European enforcers and for which there is no specific IFRS guidance or where widely diverging application appeared to exist. Among others, accounting subjects such as assessment of agent vs. principal or specific questions

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[41] ESMA32-61-403 Letter to EFRAG – *EFRAG's Draft Comment Letter on the IASB's Exposure Draft COVID-19 Related Rent Concessions – proposed amendments to IFRS 16*, 8 May 2020; ESMA32-61-402 Letter to IASB – *IASB's Exposure Draft COVID-19 Related Rent Concessions – proposed amendments to IFRS 16*, 8 May 2020

[42] ESMA32-61-421 Letter to EFRAG – IASB's Exposure Draft General Presentation and Disclosures, 21 September 2020; ESMA32-61-397 Letter to the IASB – IASB's Exposure Draft General Presentation and Disclosures, 21 September 2020

[43] ESMA32-61-406 Letter to EFRAG – *EFRAG's Draft Comment Letter on IASB's Exposure Draft Interest Rate Benchmark Reform – Phase 2*, 25 May 2020; ESMA32-61-405 Letter to the IASB – *IASB's Exposure Draft Interest Rate Benchmark Reform – Phase 2*, 8 May 2020

[44] ESMA32-61-445 Letter to EFRAG – *EFRAG's Draft Comment Letter on IASB's Discussion Paper Business Combinations – Disclosures, Goodwill and Impairment*, 18 December 2019; ESMA32-61-413 Letter to IASB – *IASB's Discussion Paper Business Combinations – Disclosures, Goodwill and Impairment*, 18 December 2019

of loan modifications were discussed. Whenever relevant, these discussions are taken into consideration by European enforcers when carrying out enforcement activity.

202. Moreover, while not an official observer to the IFRS IC, ESMA contributed to the IFRS IC work by identifying and submitting agenda item requests in relation to two issues where ESMA identified diversity in application of the accounting standards, because the requirements were not considered sufficiently clear. These issues related to:

- Costs that shall be considered when determining the net realisable value of inventories,[45] and

- Accounting for warrants that are initially classified as liability and the re-classified as equity.[46]

203. Finally, ESMA provided comments on the IFRS IC tentative agenda decision relating to the accounting treatment of reverse factoring arrangements.[47] In this decision, the IFRS IC outlined reasons for not adding the matter to its standard-setting agenda. Even though the IFRS IC confirmed this tentative decision in December 2020, the IASB Board will consider at a future Board meeting whether to undertake standard setting based on the input provided to IFRS IC by the respondents.

4.2 European Single Electronic Format

204. In June 2020, ESMA published a technical update of the ESEF Regulation (Commission Delegated Regulation 2019/815) to update the taxonomy that issuers shall use in preparation of their annual financial reports, and thereby incorporated in the ESEF Regulation the 2020 IFRS Taxonomy as prepared by the IASB. The technical update was endorsed by the European Commission and the co-legislators and published in the Official Journal in December 2020.

205. As in previous years, ESMA updated the XBRL taxonomy files to be used for ESEF[48]. The 2020 version of the XBRL taxonomy files reflects the version of the IFRS taxonomy included in the updated ESEF Delegated Regulation (i.e. the 2020 ESEF taxonomy).

206. ESMA also published for the first time in March 2020,[49] and then updated in December 2020,[50] Conformance Suite test files to facilitate implementation of the requirements set out by the RTS on ESEF. The ESEF Conformance Suite is aimed primarily at a technical

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[45] ESMA32-63-1051 Letter to the IFRS IC – *Agenda Item Request: Costs necessary to make the sale (IAS 2)*, 12 October 2020

[46] ESMA32-63-1052 Letter to the IFRS IC – *Agenda Item Request: Derecognition of a warrant (IAS 32)*, 12 October 2020

[47] ESMA32-61-418 Letter to the IFRS IC – *The IFRS Interpretations Committee's June 2020 tentative agenda decision*, 24 September 2020

[48] 2020 ESEF XBRL taxonomy files https://www.esma.europa.eu/document/esma-esef-taxonomy-2020

[49] ESEF Conformance Suite, March 2020 https://www.esma.europa.eu/press-news/esma-news/esma-publishes-esef-conformance-suite

[50] ESEF Conformance Suite, December 2020 https://www.esma.europa.eu/document/conformance-suite-2020

audience (i.e. XBRL software developers), as a way to test and provide assurance on whether software tools are able to create and / or consume filings which are in line with all ESEF requirements. In particular, the Conformance Suite permits to determine if a software is able to detect and flag infringements to the ESEF requirements contained in a filing.

207. ESMA expects that in the future, as the IFRS evolve, the IFRS Taxonomy will evolve as well and therefore the ESEF Regulation – via draft updates to the RTS on ESEF – and the ESEF XBRL taxonomy files and the ESEF Conformance Suite will need to be updated accordingly.

208. In 2020 ESMA also supported the Global Legal Entity Identifier Foundation (GLEIF) in the preparation of its 2019 annual financial report in electronic format on the basis of the requirements included in the ESEF Regulation, taking into account the guidance provided by ESMA in the ESEF Reporting Manual as last updated in July 2019. ESMA made this report available to the public[51] to provide an example of an annual financial report in ESEF format prepared in accordance with the Transparency Directive.

209. Finally, in July 2020, ESMA published an update to the ESEF Reporting Manual[52] aimed at all market participants involved in the implementation of the requirements set out in the ESEF Regulation. The Manual was originally published by ESMA in December 2017 and is intended to provide guidance on issues commonly encountered when generating Inline XBRL instance documents in compliance with the ESEF Regulation.

210. ESMA notes that in December 2020 the co-legislators agreed on a Member State option to delay application of ESEF by one year. The list of Member States which have notified the Commission of the delay can be found on the EC website.[53]

4.3 Activities related to non-financial reporting

211. Taking into account that investor preferences are increasingly shifting towards an interest in financial products that incorporate environmental, social and governance (ESG) factors, ESMA published in February 2020 its strategy on Sustainable Finance.[54] The document describes how the ESG factors will be considered across the range of ESMAs activities: Single Rulebook, Supervisory Convergence, Direct Supervision and Risk Assessment.

212. In 2020, ESMA contributed to European Commission's consultation on the review of the Non-Financial Reporting Directive (NFRD).[55] In a joint letter to the Commission[56], ESMA together with EBA and EIOPA highlighted several issues of particular importance for

[51] https://www.esma.europa.eu/esef-example-annual-financial-report
[52] ESMA32-60-254rev ESEF Reporting Manual, July 2020
[53] https://ec.europa.eu/info/publications/201211-esef-postponement_en
[54] ESMA22-105-1052 Strategy on Sustainable Finance, 6 February 2020
[55] ESMA32-334-245 Response to public consultation -- *ESMA response to the European Commission consultation on the review of the NFRD*, 11 June 2020.
[56] ESAs 2020 13 Letter to the European Commission -- *Public consultation on revising the Non-Financial Reporting Directive*, 11 June 2020.

Europe's future non-financial reporting regime, most notably the introduction of a higher level of standardisation of the disclosure requirements which companies must apply when preparing their non-financial information.

213. In July 2020, ESMA also responded[57] to the European Commission's consultation on the Commission's Renewed Sustainable Finance Strategy which should provide a roadmap with new actions to increase private investment in sustainable projects and activities and to manage and integrate climate and environmental risks into the financial system. ESMA's response covered a broad range of topics from strengthening the foundations for sustainable finance, increasing opportunities for citizens, financial institutions and corporates to have a positive impact on sustainability, to managing and reducing risks relating to environmental, social and governance (ESG) factors.

214. Following a call for advice from the Commission requesting input on certain aspects of a delegated act to supplement the obligations under Article 8 of the Taxonomy Regulation, in November 2020 ESMA, after conducting outreaches with multiple shareholders, published a consultation paper[58] with a draft advice to the Commission. The consultation paper included proposals on the disclosures of three KPIs related to environmentally sustainable activities which non-financial undertakings are required to use in accordance with Article 8(2). In addition, ESMA made proposals regarding the information that asset managers subject to the NFRD should disclose on how their activities are directed at funding environmentally sustainable economic activities.

215. In December 2020, ESMA responded to the Consultation Paper on Sustainability Reporting published by the IFRS Foundation[59]. ESMA welcomed the initiative of the IFRS Foundation to consider establishing a Sustainability Standards Board (SSB) and identified three principles which in ESMA's view are to take into account when establishing a standard-setter in this area: independent governance, public-sector oversight and ability of the disclosure standards to promote investor protection. Moreover, ESMA recommend that the IFRS Foundation carefully considers the specificities of those jurisdictions, such as the EU, in which the development of legislation in the area of sustainable finance is quite advanced. Furthermore, in a joint letter with EBA and EIOPA to the IFRS Foundation on the same subject[60], ESMA emphasised the importance of the "double-materiality" concept to enhance the relevance of the disclosures.

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[57] ESMA30-22-821 Response to public consultation – *EC consultation on a Renewed Sustainable Finance Strategy*, 15 July 2020
[58] ESMA30-379-325 Consultation Paper -- *Draft advice to European Commission under Article 8 of the Taxonomy Regulation*, 5 November 2020
[59] ESMA32-334-334 Letter to the IFRS Foundation -- *IFRS Foundation's consultation on Sustainability Reporting*, 16 December 2020
[60] ESAs 2020 28 Letter to the IFRS Foundation -- *IFRS Foundation's consultation on Sustainability Reporting*, 16 December 2020.

4.4 Activities related to the Audit Regulation

216. During 2020, ESMA continued its membership (without voting rights) of the CEAOB. ESMA contributed actively to the CEAOB's work by providing input from the perspective of securities regulators in particular, considering the COVID-19 crisis and its impact on audit firms. ESMA also chaired the Subgroup on International Equivalence and Adequacy and within that role coordinated the input to the COM on the equivalence and adequacy questionnaires for the UK legal audit framework as well as the assessment of the reposes provided by the UK authorities. Furthermore, the Subgroup closely followed up the developments of Brexit and where necessary, presented possible preparedness actions to the CEAOB such as the registration of UK audit firms and the use of a common registration template. Finally, through the Data Protection Task Force, the Subgroup also contributed to the assessment of the Global Data Protection Regulation (GDPR) impact on the data protection agreements with third countries and closely work with the EDPB to develop a common EU understanding on specific provisions.

217. During 2020, ESMA furthermore contributed as observer to the work of the CEAOB Subgroup on the audit of the ESEF, providing technical expertise on the ESEF Delegated Regulation.

218. For more information on the work of the CEAOB, including in the areas mentioned above, please refer to the CEAOB's annual report.[61]

219. In addition to the work undertaken within the CEAOB, ESMA continued to monitor developments in the auditing field in 2020.

4.5 International cooperation

220. In 2020, ESMA continued to maintain regular contact with other IFRS enforcers across the world in order to exchange practical experience on IFRS enforcement.

221. These contacts included discussions with the US Securities and Exchange Commission (SEC). ESMA's predecessor CESR and later on ESMA has engaged in cooperation and ongoing dialogue with the SEC since 2006 as part of a shared objective of promoting high quality and consistent application of financial reporting standards and avoiding conflicting regulatory approaches to the application of both IFRS and US Generally Accepted Accounting Principles (US GAAP). Areas of joint interest include the application of converged accounting standards, issues related to enforcement, electronic reporting requirements, areas of accounting related to foreign private issuers and various other matters connected to issuers and market behaviour.

[61] CEAOB Annual Report 2020, Committee of European Audit Oversight Bodies, 16 March 2021

4.6 Work programme for 2021

222. ESMA's key objective in relation to the EU single rulebook on corporate reporting in 2021 is to contribute to the establishment of high-quality corporate reporting standards, including standards for non-financial reporting through sharing the views of European enforcers on new pronouncements and endorsement advice and maintenance of the regulatory framework for digital reporting.

223. In 2021, ESMA will continue to contribute actively to the EU's accounting standard-setting and endorsement process through its observership of the EFRAG Board and the Commission's Accounting Regulatory Committee. In addition, ESMA will continue to provide its views to the various groups under the IASB which develop the IFRS, including the IFRS Advisory Council and the IFRS Taxonomy Consultative Group (ITCG).

224. In the audit area, ESMA will furthermore provide its views on relevant International Standards on Auditing (ISA) and continue to participate in the CEAOB, including as chair of the Subgroup on International Equivalence and Adequacy.

225. ESMA will monitor developments and provide advice to the Commission on any potential review of the Transparency Directive requirements relating to periodic reporting. ESMA will also monitor the developments in the area of non-financial reporting.

226. Furthermore, ESMA will update the regulatory technical standards relating to the ESEF core taxonomy.

227. Please find more information regarding the single rulebook work planned in the area of corporate reporting in section 3.3.9 of ESMA's Annual Work Programme for 2021.[62]

[62] ESMA20-95-1273 *2021 Annual Work Programme*, 2 October 2020

5 Annexes

5.1 Annex 1: Description of the European enforcement process

ESMA's role

ESMA is responsible for the promotion of an effective and consistent application of the securities and markets legislation with respect to financial reporting and aims to foster supervisory convergence in Europe, thereby reducing regulatory arbitrage. Converged enforcement practices contribute not only to the integrity, efficiency and orderly functioning of the EU Single Market but can also have a positive impact on financial stability.

The Guidelines on Enforcement of Financial Information

Background

On the basis of Article 16 of Regulation (EU) No 1095/2010 (the ESMA Regulation),[63] in 2014 ESMA published its Guidelines on Enforcement of Financial Information (ESMA/2014/1293), aiming at strengthening the supervisory convergence in the enforcement practices amongst the competent authorities designated in each EEA country and / or in some cases by other entities which have received a delegation for this purpose.[64] In February 2020, a revised version of the Guidelines was published.[65] In this revised version, changes had been made to Guidelines 5, 6 and 8, two new Guidelines 6a and 6b had been added and amended definitions of the types of examinations which enforcers can undertake had been added. The revisions to the Guidelines will become effective on 1 January 2022, and the remainder of this annex, as well as the data collected based on the Guidelines throughout this report, therefore refers to the original version of the Guidelines.

European enforcers are required to confirm in writing to ESMA whether they comply, intend to comply or do not (intend to) comply with the Guidelines. Currently, 26 EEA countries have indicated to ESMA that they comply with the Guidelines.[66]

Focus

The Guidelines define the objectives of enforcement, the characteristics of European enforcers and set out the principles to be followed throughout the enforcement process, such as selection methods, examination procedures and enforcement actions. They also strengthen the convergence of enforcement activities at European level by codifying the ECEP and requiring

[63] Regulation (EU) No 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, OJ L 331, 15.12.2010, p. 84–119

[64] A list of European enforcers is included in Annex 2.

[65] ESMA32-50-218 Guidelines – On enforcements of financial information, 4 February 2020

[66] ESMA32-67-142 Guidelines compliance table – *Guidelines on the enforcement of financial information (ESMA/2014/1293)*, 1 December 2020

enforcers to coordinate their views on accounting matters prior to taking significant enforcement decisions at national level.

The financial information of issuers whose securities are admitted to trading on a regulated market is subject to enforcement, regardless of which reporting framework it has been prepared under. This means that European enforcers examine financial information drawn up in accordance with:

- IFRS as endorsed by the EU (for consolidated and non-consolidated financial statements),
- National GAAP (for non-consolidated financial statements),
- Third country accounting standards, if those are deemed equivalent to IFRS as endorsed in the EU (for financial statements of non-European issuers).

However, the main focus for ESMA is on the requirements of the Transparency Directive in relation to the application of Regulation (EC) No 1606/2002 (the IAS Regulation)[67] and as such on issues related to IFRS as endorsed by the EU.

Key definitions and concepts

Enforcement refers to examining compliance of financial information with the applicable financial reporting framework as well as taking appropriate measures when infringements are identified.

European enforcers identify the most effective way for enforcement of financial information. Each enforcer's selection of issuers for examination is based on a mixed model whereby a risk-based approach is combined with sampling and / or rotation. A risk-based approach considers the risk of a misstatement as well as the impact of a misstatement on the financial markets. Enforcers can use either unlimited scope examinations or a combination of unlimited scope and focused examinations of financial information of issuers selected for enforcement.

An unlimited scope examination entails the evaluation of the entire content of the financial information, while a focused examination refers to the evaluation of pre-defined issues in the financial information and the assessment of whether this information is compliant with the relevant financial reporting framework. However, the depth and scope of an examination procedure cannot be equated with those of an audit of financial statements.

According to Guideline 7, whenever a material misstatement is detected, enforcers should, in a timely manner, take at least one of the following actions:

[67] Regulation (EC) No 1606/2002 of 19 July 2002 of the European Parliament and of the Council on the application of International Accounting Standards, OJ L 243, 11.9.2002, p. 1–4

- Require a reissuance of the financial statements: This action leads the issuer to publish revised financial statements which are subject to a new audit opinion,

- Require a corrective note: This action entails that either the issuer or the enforcer itself publishes a material misstatement with respect to particular item(s) included in already published financial information along with the corrected information, or

- Require correction in future financial statements with restatement of comparatives, where relevant: When an enforcer takes this action, the issuer adopts an acceptable treatment in the next accounts and corrects the prior year by restating the comparative amounts or otherwise includes additional disclosure not requiring the restatement of comparatives.

When deciding which type of action to apply, European enforcers should consider that the final objective is that investors are provided with the best possible information and an assessment should be made whether the original financial statements and a corrective note provide users with sufficient clarity for taking decisions or whether a reissuance of the financial statements is more appropriate. Other factors should also be considered, namely timing, the nature of the decision and the surrounding circumstances.

Furthermore, European enforcers seek to improve the quality of future financial statements, by engaging in activities designed to provide helpful guidance to issuers, such as defining enforcement priorities and / or pre-clearance procedure.[68]

European Enforcers Coordination Sessions

ESMA's activities on supervisory convergence of enforcement are carried out mainly through the EECS, a forum of 40 European enforcers from the various EEA countries who act in the area of supervision and enforcement of financial information. With responsibility for coordination of supervision of approximately 5,500 listed issuers preparing IFRS financial statements, EECS currently constitutes the largest regional enforcers' network with supervision responsibilities for IFRS.

According to Guideline 10, through the EECS, European enforcers discuss and share their experiences with the application and enforcement of IFRS. In particular, they discuss those enforcement cases which fulfil the submission criteria set out in the Guidelines, either before or after decisions are taken. When time constraints do not allow for waiting until the next EECS physical meeting to discuss an emerging issue (nine meetings took place in 2020, issues can be discussed in ad-hoc conference calls or through written procedure.

The purpose of the EECS discussions is to offer an opportunity to benefit from the experience of other enforcers who already encountered similar issues, and to gather useful input for the analysis of technical issues. From the discussions of emerging issues and decisions, ESMA gains a sense of the application of IFRS in Europe and of the main topics which pose challenges

[68] In some jurisdictions, issuers may approach the enforcer before finalising their financial statements and seek a formal advice on whether a proposed accounting treatment is compliant with IFRS.

to issuers. The discussions promote a consistent European approach in the application of IFRS, European enforcers are to take account of the outcome of previous discussions in the EECS when making enforcement decisions.

In addition to discussing supervisory cases, the EECS provides technical input on the issuance of ESMA statements and opinions on accounting matters, which deserve specific focus. It also reviews accounting practices applied by European issuers to enable ESMA to monitor market developments and changes in those practices. Because of the coordination within the EECS, ESMA and European enforcers are able to identify areas with a lack of guidance or divergent interpretations of IFRS. Such areas are subsequently referred to the IASB or the IFRS IC, as appropriate.

5.2 Annex 2: List of European enforcers

Country	Enforcer	Abbreviation
Austria	Financial Market Authority Austrian Financial Reporting Enforcement Panel	FMA AFREP
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	Federal Financial Supervisory Authority Financial Reporting Enforcement Panel	BaFin FREP
Greece	Hellenic Capital Market Commission	HCMC
Hungary	Central Bank of Hungary	MNB
Iceland	Central Bank of Iceland[69] Directorate of Internal Revenue	CB RSK
Ireland	Central Bank of Ireland[70] Irish Auditing and Accounting Supervisory Authority	CBI IAASA
Italy	Companies and Securities National Commission	Consob
Latvia	Financial and Capital Markets Commission	FCMC
Liechtenstein	Liechtenstein Financial Market Authority	LFMA

[69] As of 1 January 2020, the Financial Supervisory Authority (FME) merged into the Central Bank of Iceland (CB).
[70] While CBI is the national administrative competent authority represented in ESMA's Board of Supervisors, IAASA has been designated as the sole competent authority for carrying out the obligations in Article 24(4)(h) of the Transparency Directive.

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 and Pension Funds Supervisory Authority	CMVM BP IPFSA
Romania	Financial Supervisory Authority	ASF
Slovakia	National Bank of Slovakia	NBS
Slovenia	Securities Market Agency	SMA
Spain	Spanish Securities Market Commission	CNMV
Sweden	Swedish Financial Supervisory Authority Council for Swedish Financial Reporting Supervision	Swedish FSA SFRS

5.3 Annex 3: Number of IFRS issuers per EEA country

Country	Consolidated IFRS financial statements				Non-consolidated IFRS financial statements		Total IFRS issuers	
	Issuers of equity		*Issuers of bonds and securitised debt*					
	2019	*2020*	*2019*	*2020*	*2019*	*2020*	*2019*	*2020*
Austria	57	56	28	26	0	0	**85**	**82**
Belgium	109	111	2	2	0	0	**111**	**113**
Bulgaria	110	109	18	18	187	175	**315**	**302**
Croatia	68*	64	4*	5	48*	35	**120**	**104**
Cyprus	59	57	0	0	17	16	**76**	**73**
Czech Republic	24	19	9	11	38	39	**71**	**69**
Denmark	109	110	19	17	18	13	**146**	**140**
Estonia	19*	19	2*	2	7	7	**28**	**28**
Finland	126	126	18*	17	0	0	**144**	**143**
France	425	395	28	21	1	2	**454**	**418**
Germany	383	380	20	25	4	4	**407**	**409**
Greece	134	124	4	3	37	37	**175**	**164**
Hungary	33	32	1	1	12	11	**46**	**44**
Iceland	20	19	10*	11	14*	14	**44**	**44**
Ireland	30	29	3	3	52	52	**85**	**84**
Italy	222	219	7	6	8	7	**237**	**232**
Latvia	8	8	8	8	4	4	**20**	**20**
Lithuania	23*	24	2	1	4*	2	**29**	**27**
Luxembourg	40	41	21	23	50	42	**111**	**106**
Malta	21*	22	17	18	25*	26	**63**	**66**
Netherlands	126	123	9	10	28	28	**163**	**161**
Norway	183	184	60	59	23	26	**266**	**269**
Poland	338	317	1	1	43	47	**382**	**365**
Portugal	37	35	11	10	3	3	**51**	**48**

Country	Consolidated IFRS financial statements				Non-consolidated IFRS financial statements		Total IFRS issuers	
	Issuers of equity		*Issuers of bonds and securitised debt*					
	2019	*2020*	*2019*	*2020*	*2019*	*2020*	*2019*	*2020*
Romania	41*	40	4*	4	45*	43	**90**	**87**
Slovakia	13	13	6	6	7	9	**26**	**28**
Slovenia	26*	24	2*	0	0	0	**28**	**24**
Spain	135	130	5	4	0	0	**140**	**134**
Sweden	336	337	33	37	12	16	**381**	**390**
Total	**3,255**	**3,167**	**352**	**349**	**687**	**658**	**4,294**	**4,174**

* The figure differs from the corresponding figure in the previous year's report as it has been updated by the respective NCA after the publication of the previous year’s repot.

5.4 Annex 4: Number of examinations of IFRS financial statements per EEA country

Notes on the data

Scope

The table below presents the number of examinations performed during 2020 by European enforcers on the basis of the Guidelines on Enforcement of Financial Information, as published in 2014 (please see Annex 1 for further information regarding the Guidelines). Please note that this data only includes examinations of IFRS financial statements that were concluded during 2020, whereas examinations of IFRS financial statements started in 2020 that were still ongoing at the end of 2020 will be included in next year's report.

Examinations were counted in the table below if they were carried out on the basis of:

- Guideline 4 for pre-clearance examinations, or
- Guideline 6 for examinations of financial statements and financial information in prospectuses. As regards prospectuses, only examinations of financial statements in prospectuses related to initial public offerings (IPOs) and first admissions to trading are counted in these statistics (if the issuer's listing was eventually not successful, even if the financial information in the prospectus was examined, the examination is not counted).[71]

Comparability

ESMA highlights that various factors may affect the comparability of the numbers in the table. While all enforcers undertake ex-post examinations of annual consolidated financial statements drawn up in accordance with the IFRS on the basis of Guideline 6 of the Guidelines on Enforcement of Financial Information, the following differences exist between enforcers:

- Some enforcers do not examine annual separate financial statements or interim consolidated financial statements,
- Some enforcers are able to perform pre-clearances and therefore examine financial statements ex-ante on the basis of Guideline 4 of the Guidelines on Enforcement of Financial Information;
- Some enforcers apply the Guidelines on Enforcement of Financial Information on a voluntary basis for the examination of financial statements contained in IPO prospectuses.

[71] Please note that the majority of enforcers scrutinise financial statements contained in prospectuses as part of their procedures to approve prospectuses. Therefore, when prospectus scrutiny is based on the Prospectus Regulation rather than on the Guidelines on Enforcement of Financial Information, they are not taken into account for the purpose of this report.

Furthermore, examination procedures across EEA countries depend on the facts and circumstances of each case (type of issuer and complexity of financial statements, type of examination, issues raised, powers at the disposal of the enforcer, time constraints, resources available and allocation of such resources, etc.). For instance, while all enforcers strive to contribute to the improvement of the quality of financial reporting, the activities they undertake to achieve this objective may include also thematic reviews, providing assistance to other regulatory tasks (for example, the review of press releases), activities in relation to new developments and regulations (such as the ESEF) and so forth.

As another example, although the Guidelines on Enforcement of Financial Information provide definitions of 'unlimited scope examination' and 'focused examination', they allow a certain degree of flexibility in application. The experience of ESMA's Peer Review on the application of certain of the Guidelines has shown that those instruments are not applied in the same manner by all enforcers, and procedures in place remain not fully comparable. As such, some enforcers limit their examination procedures to the review of disclosure; others focus mainly on measurement and recognition issues. Some consider that unlimited scope examinations should require interaction with issuers, where others do not. These topics are addressed in the revised version of the Guidelines, published in February 2020 (please refer to Annex 1 for further information). However, as the revisions are not effective yet, readers are invited to be mindful of the abovementioned limitations when analysing the data in the table.

Empty cells indicate either that the enforcer chose not to carry out such type of examination or to apply the Guidelines to certain types of procedures, or that the national legislation does not foresee such type of examination.

Country	Total examinations	Disaggregation by type		Disaggregation by nature		
		Unlimited scope	*Focused*	*Ex-post*	*Financial information contained in prospectus*	*Pre-clearance*
Austria	**23**	22	1	23		
Belgium	**11**	11		7	4	
Bulgaria	**22**	19	3	22		
Croatia	**7**		7	2	5	
Cyprus	**7**	2	5	6	1	
Czech Republic	**7**	7		6	1	
Denmark	**16**	11	5	16		
Estonia	**22**	3	19	22		
Finland	**24**	4	20	20	4	

Country	Total exami-nations	Disaggregation by type		Disaggregation by nature		
		Unlimited scope	*Focused*	*Ex-post*	*Financial information contained in prospectus*	*Pre-clearance*
France	**76**	49	27	69	2	5
Germany	**59**	51	8	59		
Greece	**17**	13	4	16	1	
Hungary	**3**	3		3		
Iceland	**5**	5		5		
Ireland	**25**	10	15	25		
Italy	**61**	29	32	60	1	
Latvia	**5**	4	1	5		
Lithuania	**5**	2	3	4	1	
Luxembourg	**45**	18	27	45		
Malta	**7**	3	4	7		
Netherlands	**25**	19	6	25		
Norway	**59**	13	46	53	6	
Poland	**52**	19	33	46	6	
Portugal	**10**	5	5	10		
Romania	**12**	5	7	10		2
Slovakia	**21**	15	6	21		
Slovenia	**2**	2		2		
Spain	**35**	21	14	34	1	
Sweden	**66**	61	5	66		
Total	**729**	**426**	**303**	**689**	**33**	**7**

5.5 Annex 5: Number of IFRS issuers for which action was taken per EEA country

Notes on the data

Scope

The table below lists the number of issuers for whom European enforcers took action during 2020, with reference to Guideline 7 of the Guidelines of Enforcement of Financial Information which distinguishes between requiring a reissuance of the financial statements, requiring a public corrective note and requiring a correction in the future financial statements.

The purpose of the table is to show how many issuers were subjected to enforcement action in 2020 (rather than to show how many individual actions were taken). Therefore, if more than one action was taken for the same issuer, only the most severe action is counted.

Actions in the table relate to ex-post examinations only and thus do not include pre-clearances and examinations of financial information in prospectuses, which, by their nature, cannot result in the actions defined by the Guidelines.

Comparability

The comparability of the data is restricted by the fact that the use of actions is not fully harmonised in the EEA, including because the legal powers of individual enforcers to use specific actions differ on the basis of national law. Furthermore, the Guidelines allow a certain degree of flexibility in application, as further described in Annex 1.

Empty cells indicate either that the enforcer chose not to carry out such type of action or that the national legislation does not foresee that such action can be carried out.

Country	Require a reissuance of financial statements	Require a public corrective note	Require a correction in future financial statement	Total
Austria		5		**5**
Belgium		2	6	**8**
Bulgaria		3		**3**
Croatia				
Cyprus				
Czech Republic			5	**5**
Denmark		3	4	**7**
Estonia				

Country	Require a reissuance of financial statements	Require a public corrective note	Require a correction in future financial statement	Total
Finland			9	**9**
France		3	42	**45**
Germany		7		**7**
Greece		1	8	**9**
Hungary			3	**3**
Iceland				
Ireland	1	7	13	**21**
Italy	1	4		**5**
Latvia			1	**1**
Lithuania			2	**2**
Luxembourg			23	**23**
Malta		1	4	**5**
Netherlands			2	**2**
Norway		1	12	**13**
Poland	7		16	**23**
Portugal			7	**7**
Romania			5	**5**
Slovakia				
Slovenia			1	**1**
Spain		6	13	**19**
Sweden		4	33	**37**
Total	**9**	**47**	**209**	**265**