Straight away
IFRS bulletin from PwC

27 November 2013

ESMA European common enforcement priorities for 2013 financial statements

What is the issue?

The European Securities and Markets Authority (ESMA) issued its 2013 public statement on 11 November 2013. In the statement, ESMA identifies the common enforcement priorities for financial statements for the year ending 31 December 2013.

What are the key messages?

The 2013 statement identifies five financial reporting topics as priorities:

1. Impairment of non-financial assets

European enforcers, co-ordinated by ESMA, collected data on the quality of disclosures about impairment of non-financial assets. Based on this review, ESMA emphasises:

- Cash flow projections should be based on reasonable and supportable assumptions.
- Key assumptions should be disclosed at an appropriate level of disaggregation.
- Sensitivity analysis disclosure should be improved.

2. Measurement and disclosure of post-employment benefit obligations

Determining the discount rate for measuring defined benefit obligations has been a hot topic in the accounting community in 2013. IAS 19 requires companies to use a rate based on high quality corporate bonds (HCQB). This has been discussed a number of times at the Interpretations Committee, which noted that a reduction in the number of HQCB should not result in a policy change. ESMA expects entities to maintain their current approach in determining discount rates.

ESMA also reminds issuers of the importance of disclosing significant actuarial assumptions.

3. Fair value measurement and disclosure

Issuers should assess the impact of IFRS 13 on their fair value measurement. ESMA draws attention to three areas:

- Non-performance risk should be reflected in the fair value of a liability.
- The unit of account should be disclosed clearly.
- There are a number of enhanced disclosure requirements.

4. Disclosures related to significant accounting policies, judgements and estimates

ESMA expects issuers to focus on the quality and completeness of disclosures that are relevant to the entity's financial statements. These should be entity-specific, not boiler-plate.

ESMA believes that disclosures could be improved in the following areas:

- Significant accounting policies.
- Judgements made by management.
- Sources of estimation uncertainty.
- Going concern.
- Sensitivities.
- New standards issued but not effective.

5. Financial instruments

ESMA states that issuers should:

- Ensure that they meet the IFRS 7 requirements for qualitative and quantitative disclosures.
- Assess whether there is objective evidence of impairment.
- Provide disclosures sufficient to provide a comprehensive picture of the liquidity risk and funding needs of the entity.

Am I affected?

The statement gives areas of particular focus for listed companies' financial statements for the year ended 31 December 2013. It should be used as a best practice guide for both preparers and auditors.

ESMA, together with the European national enforcers, will monitor and assess the application of IFRS requirements relating to the items mentioned in the 2013 public statement.