In brief
A look at current financial reporting issues

1 November 2017

ESMA announces the European common enforcement priorities for 2017 IFRS financial statements

At a glance

The European Securities and Markets Authority ('ESMA') issued its annual public statement defining the European common enforcement priorities which are relevant for all EU listed companies. For the 2017 year-end the priorities are:

- Disclosure of the expected impact of implementation of major new standards in the period of their initial application (that is, IFRS 9, 'Financial Instruments', IFRS 15, 'Revenue from Contracts with Customers', and IFRS 16, 'Leases').
- Specific recognition, measurement and disclosure issues of IFRS 3, 'Business Combinations'. These issues were originally highlighted by ESMA in its 2014 report on the review of the application of IFRS 3, and they remain relevant on the basis of recent enforcement activities.
- Disclosures required by IAS 7, 'Statement of Cash Flows'. ESMA emphasises the importance of new and existing disclosures to enhancing transparency and providing entity-specific information to users of the financial statements.

All EU listed entities should consider ESMA's recommendations and whether they should give more disclosures in their year-end financial statements. Early identification of any gaps in the current planned level of disclosures will help entities to address ESMA's expectations.

Disclosure of the expected impact of implementation of major new standards in the period of their initial application

ESMA highlights the need for high-quality implementation of new standards (in particular, IFRS 9, IFRS 15 and IFRS 16) and communication of their expected impact on the financial statements in the period of their initial application. ESMA expects that entity-specific quantitative and qualitative disclosures about the application of the new standards will be provided in accordance with paragraph 30 of IAS 8, 'Accounting policies, changes in accounting estimates and errors'. Since the 2017 annual financial statements will be published after the requirements in IFRS 9 and IFRS 15 (and IFRS 16, if early adopted) will have become effective, ESMA expects that issuers will have substantially completed their implementation analyses. Therefore, the impacts of the initial application of the new standards will be known or reasonably estimable at the time of the preparation of the 2017 accounts, and thus they should be disclosed.

In ESMA's view, such disclosures should include disaggregated information about: (i) the accounting policy choices expected to be applied, including those relating to the transition approach and the use of practical expedients; and (ii) the amount and nature of the expected impacts compared to previously recognised amounts. When explaining the impacts, entities are encouraged to provide financial communication enabling analysts and other users to update their models.

Detailed disclosure recommendations on individual standards are included in the annex to ESMA's statement.

Specific recognition, measurement and disclosure issues of IFRS 3

ESMA draws issuers' attention to the treatment of a number of aspects: intangible assets, adjustments during the measurement period, bargain purchases, mandatory tender offers, business combinations under common control, contingent payments, and disclosures on fair value.

The common themes underlying the detailed recommendations in ESMA's statement are:

- ensuring consistency in applying assumptions or accounting policies throughout the financial statements (for example, ESMA urges issuers to ensure consistency between the assumptions used to measure intangible assets at fair value, for the purpose of a purchase price allocation in a business combination, and the assumptions applied for impairment testing or for determining useful lives of those intangible assets); and
- enhancing disclosures by providing information on assumptions, measurement techniques, and judgements (for example, in connection with measurement period adjustments, ESMA reinforces the requirements to disclose the provisional amounts, the reasons why the business combination accounting is incomplete, and the nature and amounts of any measurement period adjustments recognised during the reporting period).

Disclosures required by IAS 7

ESMA recommends that entities:

- adopt the tabular format of reconciliation, as shown in Illustrative Example E to IAS 7, to provide users with information about changes in liabilities arising from financing activities, including changes arising from both cash flows and non-cash changes;
- provide an entity-specific, rather than a generic, policy on which instruments or facilities meet the definition of cash and cash equivalents; and, in particular, whether overdraft bank facilities and balances resulting from cash pool facilities are classified as cash equivalents; and
- disclose, as required, cash and cash equivalents that are not available for use by the group; such disclosures are particularly relevant, for example, in the case of material balances held in a jurisdiction whose currency is subject to limited exchangeability or capital controls.

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