

ESMA Releases Common Enforcement Priorities

The European Securities and Markets Authority (ESMA) has recently released its annual Public Statement on European Common Enforcement Priorities. The recommendations in this statement will be considered when enforcers check and assess issuers' annual financial reports. ESMA emphasizes the responsibility of audit committees, supervisors and management and the main topics it focused on are detailed below:

Climate Matters in Financial Statements

Auditors and issuers are encouraged to examine climate-related matters when creating IFRS financial statements. The provisions of 2021 ECEP are still relevant and should be referred to when creating the 2022 annual financial statements. It is important that there is consistency across the annual financial reports about climate-related matters. Where issuers have concluded that there are no material financial impacts due to climate-related matters, those issuers should supply evidence including assessments performed, time horizons used, and judgements made to reach that conclusion. If there are expected impacts issuers must account for these factors for when calculating expected cash flows.

Invasion of Ukraine in Financial Statements

ESMA recognizes that there will be implications from Russia's invasion of Ukraine on financial reports. Issuers should not prepare a separate presentation about such impacts in the loss or profit statement, as this may ultimately be misleading. Instead, insurers should show, in the notes, the quantitative and qualitative information on the important impacts.

Macroeconomic Environment

ESMA acknowledges that the current macroeconomic environment is challenging for issuers' operations because of a combination of inflation, pandemic-related effects, increase in interest rates, geopolitical risks, and more. Issuers must provide explicit and comprehensible disclosures to allow investors to gain an accurate and relevant understanding. Issuers should ensure that possible indications of impairment are identified and addressed. The impact of increasing interest rates on impairment tests should also be examined.

Climate Matters in Non-Financial Statements

In recent years, there has been a strong emphasis on climate change by regulators, legislators, and users. The EU's European Green Deal is easing the transition to a greener and more sustainable economic/financial system but increased transparency on climate-related matters is expected by regulators and users. There needs to be transparency regarding how issuers prepare transition plans. It is key to avoid ambiguous goals and claims without addressing. Climate-related KPIs give users a clear understanding of their past performances and future goals.

Taxonomy and Non-Financial Statements

It is mandatory for issuers to use the templates in Annex II of the Article 8 Disclosure Delegated Acts. The contextual information accompanying the quantitative information provided in the template is important. Issuers should give robust disclosure about how compliance with the alignment criteria has been assessed.

Scope and Data Quality

ESMA recommends that for non-financial matters, issuers consider reporting on a larger perimeter. Issuers should detail their supply and sales chains (subcontractors, suppliers, franchisees, distributors, etc.) and explain the extent to which they have discussed these entities. When issuers make exclusions, they should specify the type, reasons for the exclusion, and related scale.

How Clerkin Lynch Can Help

It is important to abide by the ESMA recommendations and enforcement actions may arise if misstatements are found identified. The asset management team of Clerkin Lynch helps clients ensure related compliance.



Mark Browne
Partner
Email: markbrowne@clerkinlynch.com
Phone: 01 611 4400



Ariana Dideban