Circular

Enforcement of Financial Information

Main Findings for 2015 Annual Financial Statements

1.0 Background

The Transparency Directive establishes the periodic financial information to be provided by issuers whose securities are admitted to trading on a regulated market. Recital 23 provides that ‘information requirements also require adequate control by the competent authority of the Member States’ of the issuer.

European National Enforcers of financial information monitor and review financial statements and consider whether they comply with International Financial Reporting Standards and other applicable reporting requirements, including relevant national law.

The Malta Financial Services Authority (‘the Authority’) is the local independent authority responsible for ensuring that financial information provided by listed companies on the Regulated Market in accordance with the Transparency Directive complies with International Financial Reporting Standards and other applicable reporting standards. The Authority’s function aims to ensure investor protection and promote market confidence by contributing to improved transparency of accurate and reliable financial information, which is fundamental for investors as well as potential investors, to arrive at an informed investment decision.

In this regard, ESMA has issued Guidelines on the enforcement of financial information under Article 16 of the Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 (‘ESMA regulation’) in relation to the acts referred to in Article 1(2) of the ESMA Regulation, which includes the Transparency Directive, with a view to establish consistent, efficient and effective supervisory practices in relation to, and ensuring the common, uniform and consistent application of, such acts.

These guidelines are principles-based and i) define enforcement of financial information and its scope under the Transparency Directive; ii) set out what characteristics enforcers should possess; iii) describe selection techniques that should be followed and other aspects of enforcement methodology; iv) describe the types of enforcement actions that should be made use of by enforcers and explain how enforcement activities are coordinated within ESMA.

2.0 Key Findings

In carrying out its role, the Authority is currently reviewing the financial information presented by listed companies in Malta, for any possible compliance issues with the requirements of the IFRSs. Any such issues are brought to the attention of the issuer. The fundamental issues identified, in general, relate to lack of disclosure in terms of IFRS requirements. Specifically, during 2016 the Authority has identified the following disclosure weakness:

[A] IAS 1 Presentation of information – Equity Reserves and Other Comprehensive Income

Paragraph 79(a)(v) of IAS 1 requires that entities disclose the rights, preferences and restrictions attaching to each class of share capital including restrictions on the distribution of dividends and the repayment of capital. Furthermore, paragraph 79(b) of IAS 1 requires that entities disclose a description of the nature and purpose of each reserve within equity.

During its examinations the Authority noted that not all issuers provided a description of the nature and purpose of the Share Premium Reserve Account as required in terms of IAS 1 paragraph 79(b).

Paragraph 82A of IAS 1 states that the other comprehensive income section shall present line items for amounts of other comprehensive income in the period, classified by nature (including share of the other comprehensive income of associates and joint ventures accounted for using the equity method) and grouped into those that, in accordance with other IFRSs [i] will not be reclassified subsequently to profit or loss; and [ii] will be reclassified subsequently to profit or loss when specific conditions are met.

Other comprehensive income items should be disclosed under the respective category as required by paragraph 82A of IAS 1.

[B] IAS 17 Leases where the Issuer is a lessee

Paragraph 31 of IAS 17 requires that entities that are lessees under a finance lease are to disclose:

a. The net carrying amount of each class of asset, at the end of each reporting period;
b. A reconciliation between total of future minimum lease payments and their present value. In addition, an entity is also required to disclose the total of future minimum lease payments at the end of the reporting period, and their present value;
c. Contingent rents recognised as an expense;
d. Total future minimum sub-lease payments expected to be received;
e. A general description of the lessee's material leasing arrangements.

In this respect, missing disclosures included (b) to (d) above.

Furthermore and in accordance with IAS 17 paragraph 35(c), lessees are required to provide a general description of the lessee's significant arrangements, including the existence and terms of renewal or purchase options and escalation clause. In this regard, missing disclosures included i) the term of lease; ii) a detailed description of the terms of renewal (including the renewal period); and iii) information relating to the change in the annual lease payments.

[C] IAS 17 Leases where the issuer acts as lessor

Paragraph 56(c) of IAS 17 requires that lessors disclose a general description of the lessor's leasing arrangements.

In this regard, Issuers are expected to provide a general description of the lease arrangements for agreements in which they act as lessor.

[D] IAS 33 Earnings per Share

IAS 33 paragraph 66 requires earnings per share to be presented for every period for which a statement of comprehensive income is presented. If diluted earnings per share are reported for at least one period, it shall be reported for all periods presented, even if it equals basic earnings per share. If basic and diluted earnings per share are equal, dual presentation can be accomplished in one line in the statement of comprehensive income. Paragraph 69 states that an entity shall present basic and diluted earnings per share even if the amounts are negative (loss per share).

Issuers have been recommended to ensure the disclosure of diluted EPS, which may be disclosed within the same line on the Statement of Comprehensive Income. In this regard, issuers may also explicitly state that no dilutive instrument has been issued in the past.

[E] IAS 36 Impairment of assets

Paragraph 126(a) of IAS 36 requires that entities disclose the amount of impairment losses recognised in profit or loss during the period and the line item(s) of the statement of comprehensive income in which those impairement losses are included.

Issuers should ensure to disclose the income statement line items in which all impairment provisions/charges are recognised in future financial statements as required by paragraph 126(a) of IAS 36.

[F] IAS 36 Impairment of assets and reporting segments

Paragraph 129 of IAS 36 requires that segment information in accordance with IFRS 8 shall disclose the amount of impairment losses recognised in profit or loss and in other comprehensive income during the period.

Issuers should ensure that all impairment charges are allocated to each reporting segment as required by paragraph 129 of IAS 36 and also required by paragraphs 130(c)(ii) and 130(d)(ii) in future financial statements.

[G] IAS 7 Statement of Cash Flows

Paragraph 31 of IAS 7 states that cash flows from interest and dividends received and paid shall each be disclosed separately. Each shall be classified in a consistent manner from period to period as either operating, investing or financing activities.

In presenting the annual audited financial statements, issuers should ensure that any interest paid/received is added/deducted from the profit for the year and hence include the actual amount of interest paid and received under the appropriate heading within the Statement of Cash flows.

[H] IAS 12 Income Taxes

Paragraph 81(c) of IAS 12, requires disclosure of an explanation of the relationship between tax expense (income) and accounting profit. This may be achieved in two ways, one of which is a numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed.

Issuers should disclose the nature of other differences in the tax reconciliation and provide a more detailed analysis as required by IAS 12 in the annual audited financial statements.

[I] IAS 16 Commitments

Paragraph 74 of IAS 16, requires that an entity discloses the amount of contractual commitments for the acquisition of property, plant and equipment. Similarly, paragraph 75(h) requires disclosure of contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

Issuers should ensure that they disclose enough information on commitments to enable the users to classify the nature of its capital commitments under the applicable category.

3.0 Conclusion

Notwithstanding the above findings, it is pleasing to note that in the main, issuers which have been selected for an ex-post unlimited scope examination have on-boarded the requests and recommendations put forward by the Authority and took remedial action in order to include any missing disclosures in the financial statements, as necessary. We trust that the findings outlined above will assist issuers who have still not been selected for examination to make sure any applicable disclosures are included in the annual financial statements.

The Authority remains committed to ensure that listed companies comply with the requirements emanating from the International Financial Reporting Standards.

Contacts

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