

31 October 2024

## ESMA Public Statement – European Common Enforcement Priorities for 2024 Annual Financial Reports

### 1.0 Background

The Authority wishes to bring to your attention the [Public Statement published by the European Securities and Markets Authority \(“ESMA”\) on 24 October 2024](#) (hereinafter referred to as the “Public Statement”).

Issued annually, the Public Statement outlines the European Common Enforcement Priorities (“ECEP”) concerning the 2024 Annual Financial Reports (“AFRs”) of listed companies. These priorities specify the main topics that European enforcers will review when assessing and monitoring the application of reporting requirements and other relevant guidelines for the 2024 AFRs.

The Public Statement primarily addresses the following topics:

- Liquidity considerations;
- Accounting policies, judgements and significant estimates;
- Materiality considerations in reporting under the European Sustainability Reporting Standards (“ESRS”);<sup>1</sup>
- Scope and structure of the sustainability statement;
- Disclosures relating to Article 8 of the Taxonomy Regulation; and
- Common errors found in the Statement of Financial Position, in terms of the European Single Electronic Format (“ESEF”).

To guide these main topics, the Public Statement is divided into four main sections:

- **Section 1:** Priorities related to International Financial Reporting Standards (“IFRS”) financial statements;
- **Section 2:** Priorities related to sustainability statements, with reference to the ESRS and Article 8 of the Taxonomy Regulation;
- **Section 3:** Priority related to ESEF reporting; and
- **Section 4:** General considerations and reminders.

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<sup>1</sup> The European Sustainability Reporting Standards (ESRS) are to be used by undertakings in preparing their sustainability statements in accordance with Articles 19a and 29a of the Accounting Directive. The initial set of sector-neutral ESRS (Set 1) has been adopted by [Commission Delegated Regulation \(EU\) 2023/2772](#).

## 2.0 Overview of Priorities

**Section 1** outlines the priorities for **IFRS financial statements** for the 2024 AFRs, including the following topic areas:

- **Liquidity considerations** – In the Public Statement, ESMA reminds issuers of the critical importance of disclosing liquidity risks. The statement addresses several aspects of these disclosures, including key considerations outlined below:
  - The new IAS 7 *Statement of Cash Flows* disclosure requirements concerning Supplier Finance Arrangements and their impact on an issuer's liquidity risk exposure;
  - Clarifications and updated disclosures under IAS 1 *Presentation of Financial Statements* related to non-current liabilities with covenants, along with IFRS 7 *Financial Instruments: Disclosures* requirements on reporting loans payable, particularly noting any defaults, covenant breaches, or renegotiations in loan agreements; and
  - Transparency regarding accounting policies and judgements, along with increased focus on specific requirements within the Statement of Cash Flows.
- **Accounting policies, judgements, significant estimates** – ESMA highlights the importance of transparently disclosing information about assessments that involve significant judgement. Consequently, the Public Statement emphasises particular matters, some of which are provided as follows:
  - Avoiding merely repeating the IFRS requirements, as this could lead in boilerplate disclosures that hide important information and reduce the understandability of financial statements;
  - Focusing more on the requirements outlined in paragraphs 7-9 of IFRS 12, *Disclosure of Interest in Other Entities*, and ensuring that disclosures regarding the significant judgments made in evaluating control, joint control, and significant influence are clear and detailed; and
  - Disclosure of information that involves significant judgement regarding revenue from contracts with customers.

**Section 2** outlines the priorities concerning **sustainability statements** for the 2024 AFRs, including the following priorities:

- **Materiality considerations in reporting under ESRS** – ESMA highlights the significance of adhering to [EFRAG's Implementation Guidance on Materiality Assessment \(IG1\)](#) while applying the ESRS. Moreover, ESMA stresses the need for comprehensive disclosures regarding the materiality assessment process, particularly evaluating controls, risks, and stakeholder engagement, as this information is essential for users' understanding.

ESMA clarifies that all Disclosure Requirements (DRs) in ESRS 2 are obligatory, regardless of materiality, including those related to impact, risks, and opportunities. Additionally, mandatory disclosures regarding policies and targets for material

sustainability matters are required. ESMA points out the unique transparency requirements for climate-related disclosures and emphasises that any omissions must be accompanied by detailed explanations including the appropriate forward-looking analysis, as may be relevant to the materiality assessment. Lastly, ESMA encourages issuers to organise their disclosures clearly and provide a content index to enhance accessibility, as well as to include a table with the respective data points emanating from other EU legislation.

- **Scope and structure of the sustainability statement** – ESMA stresses that the sustainability statement must be for the same reporting entity as the financial statements, as outlined in Section 5.1 of ESRS 1 *General Requirements*. Furthermore, ESMA highlights that Section 8 of ESRS 1, as further illustrated in Appendix D of that Standard, provides a detailed structure for the sustainability statement and includes options for incorporation by reference under specific conditions outlined in Section 9.1 of ESRS 1. ESMA encourages adherence to this structure, stressing the importance of clear presentation for improved accessibility and understanding.
- **Disclosures relating to Article 8 of the Taxonomy Regulation** – ESMA elaborates that the recommendations regarding Article 8 Taxonomy disclosures from the [2023 Public Statement on the ECEPs](#) remain relevant in light of the expanded range of environmental objectives and climate-related activities as further elaborated in the Public Statement. These recommendations *inter alia* relation to the following areas:
  - The use of templates;
  - The prevention of double counting;
  - The evaluation of activities in relation to all environmental objectives;
  - Qualitative disclosures on the assessment of compliance with the technical screening criteria; and
  - Reporting on CapEx.

**Section 3** addresses the priority regarding **ESEF reporting**. In examining 2024 AFRs with consolidated financial statements subject to ESEF requirements, ESMA and enforcers will be targeting the respective **areas of common ESEF filing errors** identified in the **Statement of Financial Position**:

- Correctness of mark-ups;
- Extension taxonomy elements and anchoring;
- Consistency and completeness of mark-ups;
- Correctness of signs, scaling and accuracy; and
- Consistency of calculations.

ESMA highlights that Issuers should comprehensively assess how these common error areas may affect various line items when preparing and tagging their Statement of Financial Position.

**Section 4** discloses **general considerations and reminders** that are not part of this year's ECEP. ESMA encourages issuers, auditors, and supervisory bodies to keep these in mind

when preparing, auditing, or overseeing AFRs, as some considerations pertain to future reporting periods, information disclosed in the management report, and past publications. ESMA highlights the following general considerations and reminders:

- Connectivity between financial and sustainability statements;
- Considerations on IFRS financial reporting, including the observations and recommendations in ESMA's reports on IFRS 17<sup>2</sup> and carbon allowances<sup>3</sup>, respectively;
- Considerations on Alternative Performance Measures, with reference made to IFRS 18 *Presentation and Disclosure in Financial Statements*;
- Considerations on sustainability reporting; and
- Considerations on ESEF reporting.

### 3.0 Next Steps

Through the Public Statement, ESMA, alongside European National Competent Authorities, sets out the areas of focus in carrying out supervisory work on the 2024 AFRs. In this respect, ESMA advises issuers, auditors, and supervisory bodies to incorporate the main topics and detailed recommendations included in the Public Statement when preparing, auditing, and supervising the 2024 AFRs, considering materiality and relevance.

### 4.0 Contacts

Should you have any queries relating to the above, kindly contact the Authority on [transparency@mfsa.mt](mailto:transparency@mfsa.mt). For any inquiries specifically relating to ESEF, please contact [esef.malta@mfsa.mt](mailto:esef.malta@mfsa.mt).

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<sup>2</sup> ESMA Report titled, "From "black box" to "open book"? Evidence from the first application of IFRS 17 Insurance Contracts", dated 25 October 2024, is available at this link: [ESMA32-1188985980-1046 - From black box to open book? Evidence from the first application of IFRS 17 Insurance Contracts](#)

<sup>3</sup> MFSA Circular titled, "ESMA Issues a Public Statement on Accounting for Carbon Allowances in Financial Statements", dated 22 October 2024, is available at this link: <https://www.mfsa.mt/wp-content/uploads/2024/10/ESMA-Issues-a-Public-Statement-on-Accounting-for-Carbon-Allowances-in-Financial-Statements.pdf>