

## **PRESS RELEASE**

### **ESMA - Financial institutions must improve financial statement disclosures**

The European Securities and Markets Authority (ESMA) has published a [Review](#) of the comparability and quality of disclosures in 2012 IFRS financial statements of listed financial institutions.

The Review makes recommendations aimed at enhancing the transparency of financial statements through the improvement of disclosures in certain key areas including: credit risk and impact of forbearance practices; liquidity and funding risk; asset encumbrance and fair value measurement of financial instruments.

ESMA, while finding that the required disclosures under IFRS were generally observed, also identified broad variations in the quality of the information provided, and found some cases where that was insufficient or insufficiently structured to allow comparability among financial institutions.

Steven Maijoor, ESMA Chair, said:

“ESMA has identified a number of areas where financial institutions can improve the information that they provide in their financial statements, particularly on issues such as credit risk and forbearance.

“We expect that financial institutions and their auditors will take into account our recommendations when preparing and auditing the IFRS financial statements for 2013.

“ESMA believes that accurate and comparable financial statements play a key role in maintaining both investor and market confidence, which in turn contributes to financial stability and promotes sound economic growth.”

## **The Review**

ESMA decided to undertake a review of some of the key areas of the financial statements prepared by listed financial institutions across the EU in order to assess their comparability and the quality of disclosures. The review was based on a sample of 39 large European financial institutions from 16 jurisdictions, mostly consisting of banks that were included in the latest EBA stress-test exercise, most of which will move under the ECB supervision in 2014.

The review focused on the following areas:

- Structure and content of the income statement;
- Liquidity and funding risk including the effects of asset encumbrance;
- Hedging and the use of derivatives;
- Credit risk with a focus on credit risk management, forbearance practices, non-performing loans and country concentration risk; and
- Criteria used to assess impairment of equity securities classified as available-for-sale.

## **Conclusions and Recommendations**

Some financial institutions provided disclosures that were not specific enough, lacked links between quantitative and narrative information, or provided disclosures that could not be reconciled to the primary financial statements. In particular, ESMA found:

- it difficult to compare the income statements of the financial institutions, due to differences in their structure, the line items content and lack of comprehensive accounting policy disclosures;
- that in many cases financial statements did not include sufficient information on the use of derivatives. The link between the business purpose and the classification in the financial statements was often unclear; and
- significant divergence in the application of the significant or prolonged criteria when assessing impairment of the equity securities classified as available-for-sale.

As a result of the conclusions and recommendations included in this review, ESMA expects enhanced disclosures to be provided in 2013 on exposures to credit risk, its mitigation e.g. by collateral, guarantees or credit default swaps, analysis of specific concentrations of credit risk and disclosure of impairment policies in order to enable investors to assess the overall credit risk.

While progress was seen in the disclosures relating to forbearance practices following ESMA's Public Statement in 2012, with more financial institutions providing information on forborne financial assets, ESMA expects financial institutions to provide more granular quantitative information on the effects of forbearance. This would enable investors to assess the level of credit risk related to forborne assets and their impact on the financial position and performance.

Furthermore, ESMA believes that improving the level of transparency in the area of liquidity and funding risk, asset encumbrance and fair value measurement of financial instruments is needed as indicated in the ESMA Public Statement on the 2013 European Common Enforcement Priorities.

### **Next Steps**

ESMA expects that national competent authorities will take appropriate enforcement actions where material breaches of the IFRS requirements have been identified as part of the review and will monitor their progress. As announced in the ESMA Public Statement on the 2013 European Common Enforcement Priorities, ESMA and national competent authorities will focus in the review of 2013 financial statements on a number of areas that are particularly relevant for financial institutions.

ESMA will also provide suggestions to the IASB on those areas where it believes additional IFRS guidance can improve the quality and transparency of financial statements.



## Notes for editors

1. [2013/1664 Review of Accounting Practices - Comparability of IFRS Financial Statements of Financial Institutions in Europe.](#)
2. [2013-1634 Public Statement - European common enforcement priorities for 2013 financial statements.](#)
3. ESMA is an independent EU Authority that was established on 1 January 2011 and works closely with the other European Supervisory Authorities responsible for banking (EBA), and insurance and occupational pensions (EIOPA), and the European Systemic Risk Board (ESRB).
4. ESMA's mission is to enhance the protection of investors and promote stable and well-functioning financial markets in the European Union (EU). As an independent institution, ESMA achieves this aim by building a single rule book for EU financial markets and ensuring its consistent application across the EU. ESMA contributes to the regulation of financial services firms with a pan-European reach, either through direct supervision or through the active co-ordination of national supervisory activity.

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