Date: 27 October 2017
ESMA32-63-364

SUMMARY OF FINDINGS

Results of the fact-finding exercise on disclosure of the impact of the new accounting standards in the 2016 annual and 2017 interim IFRS financial statements

Two new accounting standards, IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* are to be applied from 1 January 2018. As a result of the significant changes these requirements are expected to bring to a large number of listed companies, and credit institutions in particular, there has been a lot of focus on the disclosures of the implementation of the new standards and their expected impact on the financial position, capital position and/or performance. In 2016 ESMA issued two Public Statements stressing the importance of timely disclosure on the impact of implementation of IFRS 9[1] and IFRS 15[2] in the 2016 and 2017 IFRS financial statements.

As part of its objective to coordinate European enforcement activities, ESMA has collected information from national enforcers with respect to 2016 IFRS annual financial statements and 2017 IFRS half-year interim financial statements published by listed European companies. The focus of this fact finding exercise is to evaluate the transparency and effectiveness of disclosure on the impact of the implementation of the new standards in the industries that are expected to be most impacted by the changes in the accounting requirements. These include credit institutions with regards to disclosures related to the implementation and transition impact of IFRS 9 and non-financial issuers mainly in construction, telecommunication, software industries as well as in utilities and industrial companies in relation to disclosure of implementation and impact of IFRS 15.

The data gathered in the fact-finding exercise showed that only a limited proportion of issuers provided both qualitative and quantitative disclosure on the expected impact of the new standards and that the quality of disclosure varied across the European Economic Area. While ESMA acknowledges that more than half of the issuers in the sample provided progressively more disclosures, the extent of the information provided remains limited and boilerplate disclosures remain an area of concern. While this might reflect different progress in implementation of the standards and resulting lack of confidence in the precision of the information available, it might also indicate a low level of transparency on implementation and expected impact shortly before IFRS 9 and IFRS 15 are to be applied, notably in the interim financial statements.

ESMA recalls the importance of providing entity-specific information on the impact of the new standards in light of the requirements of IAS 8 *Accounting Polices, Changes in Accounting Estimates and Errors* and expectations articulated by ESMA in its two public statements published in 2016. ESMA reiterates in its 2017 European Common Enforcement Priorities[3] the need for adequate disclosure and sufficient transparency for upcoming application of the new standards. In the context of the application of the new standards

[1] Public Statement: Issues for consideration in implementing IFRS 9 *Financial instruments*, ESMA, 10 November 2016
[2] Public Statement: Issues for consideration in implementing IFRS 15 *Revenue from Contracts with Customers*, ESMA, 20 July 2016
[3] Public Statement: European Common Enforcement Priorities for 2017 year-end, ESMA, 27 October 2017

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as of 1 January 2018, ESMA urges issuers to reinforce and speed-up their implementation efforts so that improved disclosure can be provided in the 2017 annual financial statements.

Fact-finding exercise on disclosure of implementation and impact of IFRS 9

ESMA pre-selected a sample of 48 large and medium-sized credit institutions from 21 jurisdictions of the European Economic Area to perform its fact-finding exercise. This exercise was performed solely on the basis of the disclosure provided in the 2016 annual and 2017 half-year interim IFRS financial statements.

Out of the analysed credit institutions approximately one quarter did not provide any disclosure on the implementation of IFRS 9 in the 2017 half-year interim financial statements. Consequently, for these financial institutions, only the 2016 annual financial statements were used for the analysis. Out of those credit institutions that included information on the new standards in the interim financial statements, three-quarters provided an update of selected information, while a quarter provided a full set of information. However, the quality of the information and the depth of the update differed. ESMA welcomes that a significant number of credit institutions provided progressively more entity specific information on IFRS 9 implementation in the financial statements, as this information becomes available.

ESMA notes that approximately two thirds of the issuers in the sample provided some level of issuer-specific qualitative or quantitative information on the impact of IFRS 9 on the issuers' financial statements and on the governance of the IFRS 9 implementation project. However, approximately one fifth of the credit institutions in the sample provided boilerplate disclosure and the remaining 13% did not provide any substantial information on the implementation of IFRS 9 nor its impact, neither in the annual nor interim financial statement analysed.

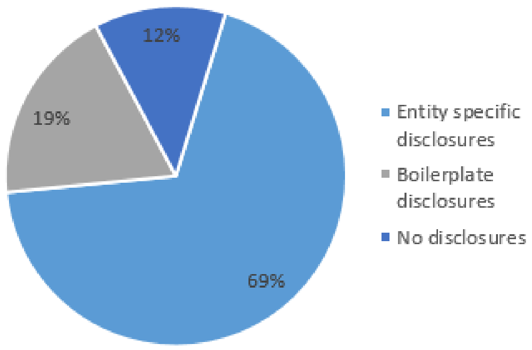

Figure 1. This chart shows the percentage of issuers providing entity-specific disclosures on the impact of IFRS 9

ESMA welcomes that approximately 40% of the credit institutions provided entity specific description and explanation on how key IFRS 9 concepts will be implemented. However ESMA notes that less than a third of the credit institutions in the sample provided detailed descriptions of the approach to assess the significant increase of credit risk or a description of how forward-looking information will be considered in such assessment and in the measurement of the expected credit losses. ESMA notes that further approximately one third of the sample provided descriptions of the qualitative impact of IFRS 9 implementation that was boilerplate and of limited use. Equally, only approximately forty percent of the credit institutions provided disclosure on the expected use of the transition relief.

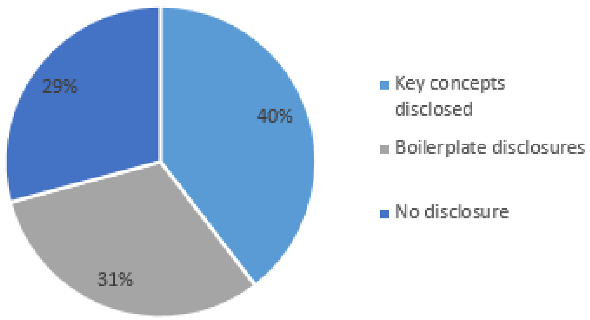

Figure 2. This chart shows the percentage of issuers providing qualitative disclosures on the impact of IFRS 9

ESMA notes that less than 10% of the sample plans to use the IFRS 9 hedge accounting, while the great majority of credit institutions plan to retain the IAS 39 hedge accounting model, most probably in view of the EU carve-out on '*macro-hedging*' in IAS 39.

ESMA acknowledges that approximately half of the credit institutions provided entity specific description of the qualitative impact of introduction of IFRS 9. Most of these institutions provided a disaggregation between the impact on the financial position, financial performance and capital position.

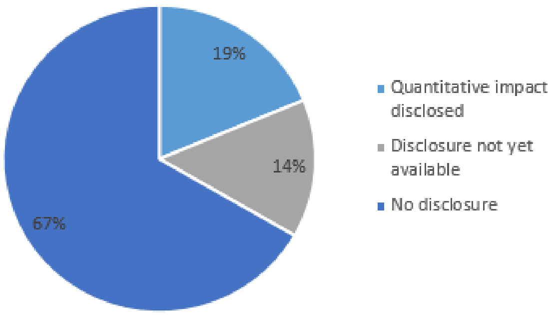

Figure 3. This chart displays the percentage of issuers providing quantitative disclosures on the impact of IFRS 9

On the other hand, only one fifth of the credit institutions in the sample provided an assessment of the quantitative impact of IFRS 9 introduction on the financial statements. Only very few credit institutions provided further disaggregation of the quantitative impact. Most of those providing this impact assessment stated the aggregate impact on the capital ratios on a fully loaded basis.

One fifth of the credit institutions in the sample, while not providing a quantitative impact of IFRS 9, included additional qualitative information enabling users to understand the magnitude of the expected impact. In the context of only approximately a third of credit institutions providing either quantitative information on the impact or detailed additional qualitative information on the magnitude of such impact, ESMA reiterates its expectation that all credit institutions should provide disclosure of the quantitative impact of IFRS 9 in their 2017 annual IFRS financial statements.

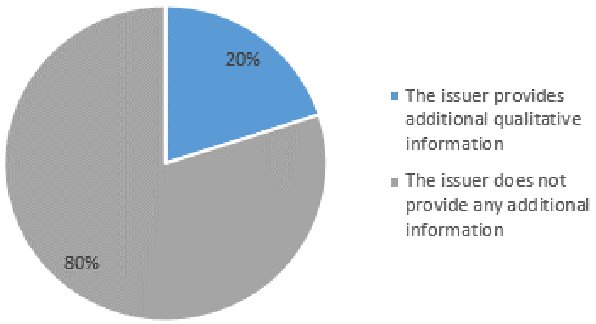

Figure 4. This chart shows how many issuers, having provided no quantitative disclosures, do provide some additional qualitative information allowing issuers to understand the magnitude of the expected impact of IFRS 9

Finally, ESMA notes that approximately a quarter of the credit institutions in the sample decided to apply early the IFRS 9 requirements related to the own credit risk. These institutions in principle provided the required disclosure in this respect.

Fact-finding exercise on disclosure of implementation and impact of IFRS 15

A sample of 47 issuers from 26 member states of the European Economic Area belonging to different industries (mainly construction, telecommunication, software, utilities and industrial companies) in the non-financial sector was identified by national enforcers to assess the quality of the disclosures on the progress made towards implementation of IFRS 15 and the expected impact of the new standard. As per IFRS 9, also for IFRS 15 this exercise was performed solely on the basis of the disclosure provided in the 2016 annual and 2017 half-year interim IFRS financial statements.

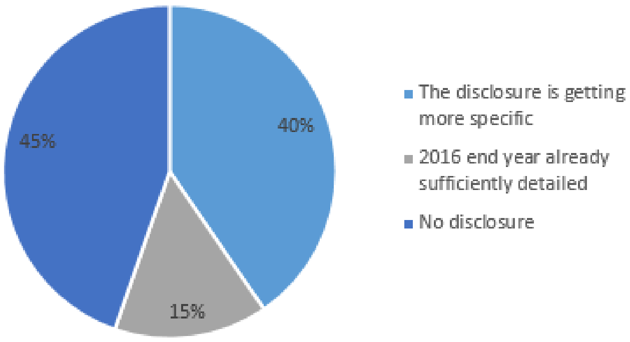

Figure 5. This chart illustrates how many issuers provided progressively more relevant and specific information as the implementation project of IFRS 15 progresses

With respect to disclosures of the implementation of IFRS 15, two fifths of the issuers disclosed information that was assessed as progressively more specific between the 2016 annual financial statements and the 2017 half-yearly statements. ESMA welcomes that these issuers provided progressively more specific information on the implementation of IFRS 15, as this information has become available. Less than half of the issuers in the sample provided qualitative information on how the 5-step model in IFRS 15 would be implemented. However of these one third provided disclosures which were deemed to be boilerplate as they lacked specificity. Similarly, only 40% of the issuers provided qualitative disclosure on the expected timeline of the implementation of the new standard.

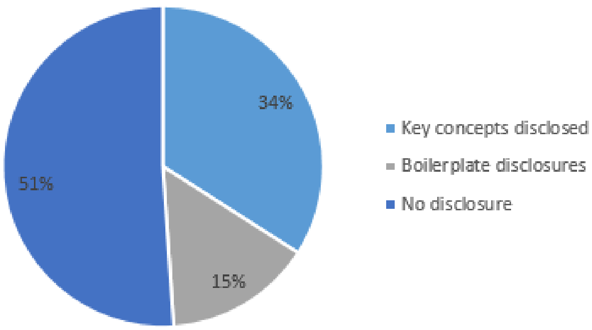

Figure 6. This chart indicates how many issuers provided qualitative disclosures on the impact of IFRS 15

Regarding the disclosure of the expected impact, either qualitative or quantitative, of the implementation of IFRS 15, it should be noted that, although more than four-fifths of the issuers in the sample provided disclosure either in the 2017 half-year interim financial statements or in the 2016 annual financial statements, of these issuers approximately one-sixth provided information that was deemed to be boilerplate and therefore of limited value to users. In addition, less than 10% of the issuers indicated that they had early adopted IFRS 15 and plan to early adopt IFRS 16.

A majority of issuers provided qualitative disclosure on the impact of the new standard on different areas of business, mainly by identifying a key area or activity where the impacts are expected to be more significant. In a few cases these disclosures were deemed to be not specific and boilerplate. Similarly, more than half of the issuers provided qualitative disclosures on the differences between the accounting for revenue from contracts with customers under IFRS 15 compared to the current approach. Only in very few cases, these disclosures were deemed to be boilerplate. Finally, approximately two-fifths of the issuers disclosed the transition approach they expected to adopt, most of which indicated a preference for the modified retrospective approach.

Only approximately one-third of the issuers provide quantitative disclosure and amongst the majority of those not providing any quantification, only some indicate that quantitative information is not yet available. Only around 10% of the issuers disaggregate the quantitative impacts for example by area of business or type of revenue stream affected and only in limited cases are the qualitative disclosure provided deemed sufficient to somehow complement the lack of quantitative information (for example, where the issuer disclosed that the magnitude of the impact is immaterial). Finally, approximately 10% of issuers indicated that the quantitative disclosures will be available towards the end of 2017.

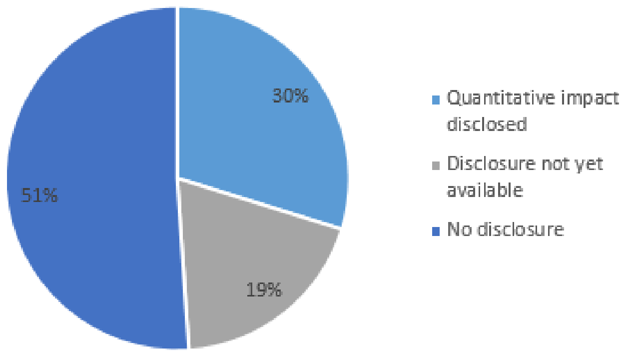

Figure 7. This chart displays the percentage of issuers providing quantitative disclosures on the impact of IFRS 15