



European Securities and
Markets Authority

Report

Activity Report on IFRS Enforcement in the European Economic Area in 2011

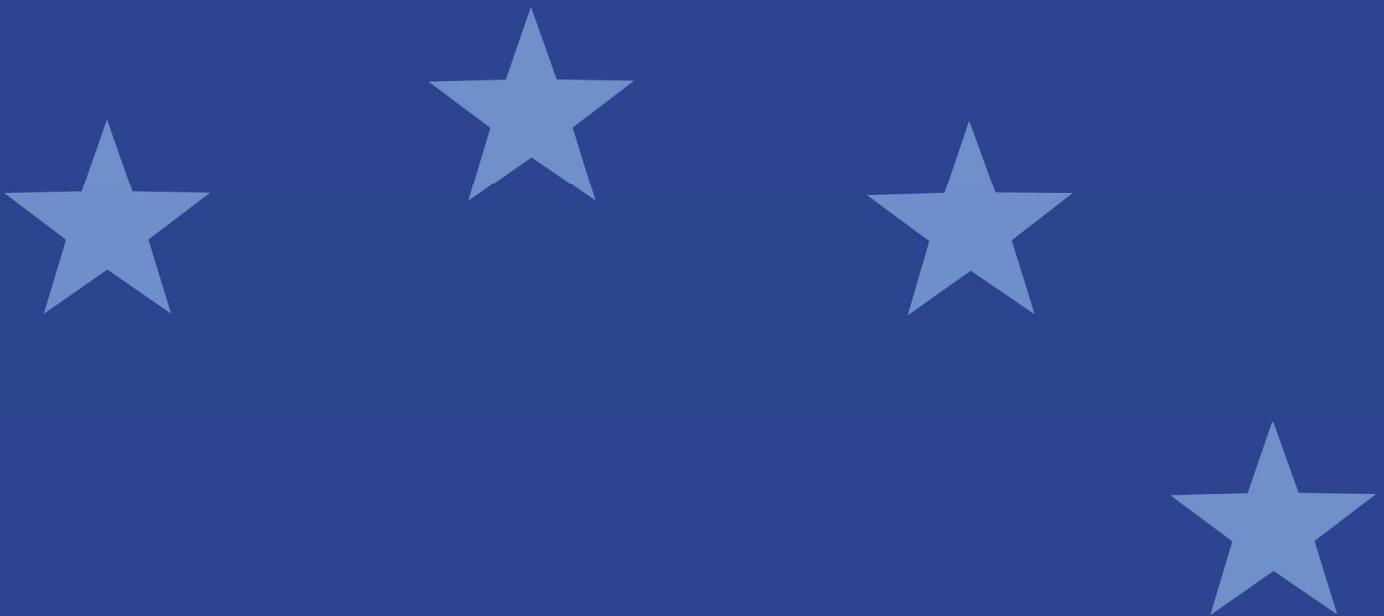


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Annex I: List of European Enforcers

List of abbreviations and acronyms used in this report

CA	Competent Authority
CESR	Committee of European Securities Regulators
CRSC	Corporate Reporting Standing Committee
EEA	European Economic Area
EECS	European Enforcers Coordination Sessions
EU	European Union
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IFRS IC	International Financial Reporting Standards Interpretation Committee
US SEC	United States Securities Exchanges Commission
JFSA	Japan Financial Services Agency

Executive Summary

This report provides an overview of the monitoring of compliance of financial information with International Financial Reporting Standards (IFRS) and the taking of appropriate enforcement action in the European Economic Area (EEA) in the year ended 31 December 2011. The report is based on the activities of the European Enforcers Co-ordination Sessions (EECS) and of the accounting enforcers in the EEA (European enforcers). The EECS operates under the oversight of the European Securities and Markets Authority (ESMA). The main objective of EECS is to co-ordinate the enforcement activities of Member States in order to increase convergence amongst European enforcer's activities which should contribute to fostering investor confidence.

ESMA is pleased to report on the various IFRS enforcement activities at EEA and Member State level. EECS main functions include: coordination of enforcement activities through exchange of views on particular accounting matters, providing feedback to the International Accounting Standard Board on issues related to the application of the IFRS and work on dedicated projects identified as key priorities.

As a result of sovereign debt developments and the increased market interest in this area, ESMA focused its attention on the impact of those developments on the accounting practices of listed companies in Europe, and financial institutions in particular. On the basis of a fact finding exercise, ESMA issued two public Statements (in July and November 2011) stressing the importance of consistent application of recognition and measurement principles in IFRSs and the need for enhanced transparency in relation to issuers' exposure to sovereign debt.

ESMA also issued a report on the review of the application of IFRS 8 – *Operating Segments*, a consultation paper on the role of materiality in the IFRS financial statements, as well as publication of a set of selected decisions illustrating European enforcement activity.

IFRS enforcement activities at Member State level which include full and partial reviews of financial statements have slightly increased in 2011 compared to the previous year. European enforcers find that overall the quality of the IFRS financial statements improves every year reflecting an increased level of issuers' capacity to apply IFRS principles to their business.

European enforcers have identified some areas on which additional efforts should be done by issuers in order to achieve compliance with IFRS and around 600 enforcement actions have been taken against issuers. Examples of such areas are: disclosures related to fair value hierarchy of financial instruments, disclosures of assumptions used as part of impairment tests, presentation of risk factors and uncertainties with an impact on going concern assumptions, various aspects related to consolidation of entities. A range of topics has also been discussed with representatives of the IFRS Interpretations Committee (IFRS IC), as part of the regular cooperation process between the two bodies.

In its continuing efforts to facilitate communication among enforcers around the world ESMA organized a seminar in December 2011 gathering enforcers from around 30 countries and having benefited from the participation of the Chairs of the IASB and IAASB.

ESMA together with the national competent authorities will reinforce enforcement activities reflecting its strong commitment to contribute to the consistent application of IFRS around the globe.

I INTRODUCTION

1. The aim of this report is to provide a review of the activities of EECS and the European enforcers, during the year ended 31 December 2011.
2. The report is intended to be of interest to all market participants, including European issuers, investors on European markets, auditors, other regulators and the general public.
3. This report aims to:
 - provide an overview of enforcement activities in the EEA and the coordination of enforcement through EECS;
 - present the outcome and some tentative conclusions relating to the enforcement of IFRS; and
 - provide a summary of EECS engagement with third country accounting enforcers.
4. The report draws on the activities of EECS and the European enforcers during 2011 relating to:
 - Activities realised or coordinated at European level
 - Issues brought to the attention of the standard setter
 - Ex-ante activities incurred as part of the preparation of the annual review process;
 - Findings in respect of reviews conducted in 2011;
 - Actions taken to improve the quality of future financial reporting;
 - Decisions and emerging issues discussed during EECS meetings in the year;
5. This document also reports on the programme of co-operation between ESMA's Corporate Reporting Standing Committee and third country authorities in the accounting enforcement area. The content of this section is largely derived from the outcome of meetings held between ESMA, and the US SEC. In addition new contacts have been established with other third country authorities such as the Japan FSA.

II DESCRIPTION OF ENFORCEMENT IN THE EUROPEAN ECONOMIC AREA

6. This section provides a description of the main features of the European enforcement system, the coordination of which at European level takes place through EECS. Enforcement activity refers to the monitoring of compliance of financial information with the applicable reporting framework and the taking of appropriate measures in respect of infringements discovered in the course of compliance reviews.

II.I European financial reporting enforcement system

A) Objectives

7. According to European Regulation no 1095/2010 establishing the European Securities and Markets Authority (ESMA), ESMA shall act in the field of financial reporting, to ensure the effective and consistent application of European Securities and Markets legislation. Those responsibilities are organised by ESMA through EECS, a forum containing 37 European enforcers from 29 countries in the EEA.
8. EECS aims to promote a high level of consistency amongst enforcers in the decisions they take in respect of their reviews of financial statements. Consistency is achieved through analysis and discussion of decisions taken, or to be taken, by European enforcers relating to the application of IFRS. Through EECS, European enforcers are also able to share and compare their practical experiences on the enforcement of the IFRS financial information provided by companies who have or who are in the process of having securities admitted to trading on a regulated market in Europe.
9. EECS also aims to contribute to the harmonization of the application of IFRS in the EEA by identifying areas which are not covered by financial reporting standards or which may be open to widely diverging interpretations for referral to the IASB or the IFRS IC, as appropriate.
10. The establishment of ESMA has brought new legal instruments contributing to achieve consistent application of IFRS in the EEA. An example of that can be found in the Opinion issued in November 2011 (see below).

B) EECS main functions

11. EECS is a forum in which European enforcers exchange views and discuss experiences relating to the enforcement of financial reporting standards. The convergence of enforcement in Europe is necessary in order to contribute to the creation of an efficient single capital market.
12. The framework of enforcement activity was established by ESMA (at that time, CESR) by issuing two principles based standards: Standard No. 1 – Enforcement of standards on financial information in Europe (CESR/03-0731) and Standard No. 2 – Co-ordination of enforcement activities (CESR/03-317c²), accompanied by Guidance for implementation of co-ordination of enforcement of financial information (CESR/04-257b³). These standards are currently under revision (see also section III.II).
13. A key function of EECS lies in analyzing and discussing emerging issues and decisions taken by independent European national enforcers in respect of financial statements published by issuers with securities traded on a regulated market and who prepare their financial statements in accordance with IFRS. EECS met 8 times in 2011.
14. The emerging issues may refer to cases which are of relevance to other European issuers or are of significant importance to the European regulated market or have been identified at European level as being widely spread. This was the case in 2011 for the exposure to sovereign debt to which in addition of discussing the topic, ESMA decided to issue public statements, as further explained in section III.I.
15. Other emerging issues may refer to facts and circumstances identified by enforcers which they are considering and looking for guidance and assistance from other enforcers in advance of deciding on the case in hand. Other enforcers may have dealt with similar issues or be able to offer advice about how to approach an issue or to help expand the basis on which a decision might be made. These discussions enable enforcers to better analyse, explain and refine their rationale for making decisions on the basis of what they may learn from other enforcers. Where emerging issues are urgent, perhaps because of the issuer's reporting timetable, EECS may also discuss matters on an ad-hoc basis between meetings. The discussion of emerging issues contributes to the main goal of EECS in promoting consistency of enforcement.
16. To facilitate the sharing of enforcement decisions and experiences, Standard No 2 provides for the establishment of an internal database to which European enforcers are obliged to submit decisions they have taken as part of their national enforcement processes according to established submission criteria. The criteria are set out in full in the “Guidance for implementation of co-ordination of enforcement of financial information” and include material misstatement, general interest, complexity of facts and circumstances and

¹ <http://www.esma.europa.eu/popup2.php?id=192>

² <http://www.esma.europa.eu/popup2.php?id=2046>

³ <http://www.esma.europa.eu/popup2.php?id=2557>

potential to conflict with other decisions taken by European enforcers. In order to achieve consistent enforcement decision throughout Europe, European enforcers consult the database before taking an enforcement decision.

17. As of 31 December 2011, around 200 emerging issues and more than 500 decisions had been entered into the EECS database, out of which 40 emerging issues and 80 decisions have been submitted in 2011. All emerging issues and the most complex decisions were analysed and discussed in meetings held during the year.
18. In addition to discussing decisions and emerging issues, EECS provides European enforcers with the opportunity to discuss other matters relevant to their enforcement activities and to develop a better understanding of processes and procedures within enforcement authorities across Europe through reviews or working groups.
19. EECS also provides enforcers with the means of sharing their national publications with fellow enforcers – e.g. enforcers' Activity Reports and other announcements to national markets on issues relating to the monitoring of IFRS. These papers are often tabled for presentation during EECS meetings.

II.I **Enforcement at national level**

A) General information

20. Direct supervision of listed entities and enforcement of financial information is performed at national level by the national competent authorities.
21. In accordance with article 24.1 of the Transparency Directive, a Competent Authority for enforcement of financial information is designated in each Member State within the EEA. Other bodies are allowed to carry out enforcement either in their own right or on behalf of the competent administrative authorities, providing that these bodies are supervised by, and responsible to, the relevant competent administrative authority. Only Germany and Sweden made use of that option to delegate enforcement from the competent authority. In most countries enforcement is carried out by one single authority. In the United Kingdom and Ireland two authorities are involved: one authority deals with periodic financial reports; the other with financial information in prospectuses. In Denmark there is one authority which deals with financial information in prospectuses as well as periodic financial information of financial entities and one authority which deals with periodic financial reporting by non-financial entities. Portugal has a similar system as Denmark.
22. Irrespective of the different structures adopted by national enforcers which can lead to different processes and scopes of activity, all national enforcers serve a single and common objective – to promote market confidence and protect investors by contributing to the

transparency of financial information relevant to investors' decision making processes. A key focus of enforcers' work is the application of IFRS in financial statements.

23. While the scope of enforcement under the Transparency Directive covers all reporting frameworks that might be applicable to listed issuers, including national GAAPs when applied to non-consolidated financial statements or third country accounting standards for non-European issuers, this report focuses only on enforcement activities related to IFRS financial statements, and takes no account of any other monitoring activity.

B) Enforcement activities

24. Standard No. 1 on Enforcement of Financial Information refers to a range of corrective and other actions that may be taken by enforcers in respect of infringements of relevant reporting requirements in annual or interim financial reports detected as part of the review of financial statements.
25. A review of a set of financial statements refers to the process of analysing financial information for compliance with the requirements of the relevant reporting framework. Such a review may cover a company's full set of financial statements (full review) or only certain areas (partial review).
26. The selection of issuers whose accounts are subject to a full review is based on Standard No.1 and its application guidance which advocates a risk-based approach combined with random selection or rotation. The risk based approach depends on both the probability of a material misstatement in the financial statements and the potential impact of such a misstatement on market confidence and investor protection.
27. The partial review, by definition, does not involve the enforcer analysing all areas of the financial statements for compliance with the reporting requirements. Partial reviews might be prompted by a number of considerations including signals about incorrect application of IFRS and known areas of non-compliance by issuers in previous years, first time application of mandatory standards or areas of particular focus given the economic climate or trading conditions.
28. Where potential infringements of the reporting framework are identified on review, they are brought to the attention of the issuer. Following exchanges of correspondence and/or meetings with the issuer in which the enforcer may ask for additional information or explanation and, possibly, discussion at EECS, the enforcer makes a decision on whether or not the treatment adopted by the issuer complies with the IFRS. After taking into account the materiality of the issue, the enforcer might conclude that the treatment is not acceptable. The case will result in one or more of the enforcement actions set out below.
29. If the infringement is considered material:

- *Issuance of new financial statements accompanied by a new audit opinion (where applicable):* this action entails the withdrawal of the original accounts and issuance of revised financial statements which are subject to a new audit opinion;
 - *Public corrective note or other type of communication to the public:* this may mean a press release either by the issuer or the enforcer informing the market of the error and the effect of the corrective action in advance of the issuance of the next annual or interim financial statements; or
 - *Correction in the next financial statements:* the issuer adopts an acceptable treatment in the next accounts and corrects the prior year by restating the comparative amounts through applying IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors* or otherwise includes additional disclosures not requiring the restatement of comparatives.
30. If the departure from the standard is found not to be material:
- *Notification of the issuer of the departure of the standard* but normally no information is published to the market.
31. European enforcers also seek, more generally, to improve the quality of future financial reporting in Europe. In order to achieve this, some enforcers engage in activities designed to provide helpful guidance to issuers in advance of the preparation of their financial information.
32. Example of such activities include the following:
- *Issuance of alerts indicating the main areas of examination for the forthcoming financial year:* many European enforcers announce their main areas of focus ahead of the next reporting period before issuers commence the preparation of their accounts.
 - *Pre-clearance:* in some jurisdictions, issuers may approach their enforcer for formal notification in advance of their accounts preparation for a decision on whether their proposed accounting treatment for a specific transaction or reporting area is in accordance with the relevant reporting framework. Pre-clearance takes different forms in different countries but may include a comprehensive written description of the specific facts and circumstances underlying the issue; a detailed analysis of the options available with respect to the accounting treatment and a rationale supporting the issuer's proposal. The benefit of pre-clearance is that it can help to ensure that non-compliant information is avoided in the preparation of IFRS financial statements.
 - *Open seminars with issuers and auditors in advance of the interim or year-end financial reporting.*

III MAIN EUROPEAN ENFORCEMENT ACTIVITIES IN 2011

33. This section focuses on the main activities realised or coordinated by EECS in its role of promoting consistent application and enforcement of IFRS in the EEA. EECS met 8 times during 2011, with a significant part of the meetings being dedicated to the discussion of accounting issues submitted by national enforcers and a dedicated meeting to discussion of specific accounting issues related to sovereign debt. In addition to that special meetings have been held by the working groups on identified issues which are described below.

III.I Sovereign bonds accounting issues

34. The financial crisis has had a major impact on the financial position and performance of publicly traded companies, particularly those in the financial sector. As a result of sovereign debt developments and the increased market interest in this area, EECS particularly focused its attention on the impact of those developments to the accounting practices of listed companies in Europe, and financial institutions in particular, with respect to their exposures to sovereign debt.
35. To answer to all these challenges ESMA performed a thorough analysis of accounting issues based on dialogue and information obtained from issuers assessing the appropriateness of the accounting practices. ESMA conducted together with national competent authorities a fact-finding exercise on the accounting treatment of Greek sovereign debt in the half-year financial statements based on a sample of more than 50 financial institutions listed in EU regulated markets that revealed some diverging practices across banks and countries.
36. The work of EECS resulted in two ESMA Statements being published in July and November 2011.
37. The Statement *Disclosures Related to Sovereign Debt to be included in IFRS Financial Statements* published by ESMA on 28 July 2011 (ESMA/2011/226⁴) stressed the need for enhanced transparency and the importance of applying the relevant IFRS. ESMA also encouraged issuers to provide information on their exposures to sovereign debt on a country-by-country basis in their financial statements.
38. In order to promote consistent application in the year-end IFRS financial statements, in November 2012, ESMA published a Statement (ESMA/2011/397⁵) containing two sections:
- One section discusses accounting issues related to sovereign debt in IFRS annual financial statements ending 31 of December 2011 and highlights elements that should be considered by issuers and their auditors in relation to exposure to sovereign debt when preparing their financial statements for the upcoming year-end;
 - The second section was an ESMA Opinion “Accounting for Exposure to Greek Sovereign Debt – Considerations with respect to IFRS Interim Financial Statements

⁴ http://www.esma.europa.eu/system/files/2011_226.pdf

⁵ http://www.esma.europa.eu/system/files/2011_397.pdf

for Accounting Periods ended on 30 June 2011”. The Opinion provides a summary of the outcome of the fact-finding exercise performed by ESMA together with elements that should have been considered by issuers and their auditors as part of the IFRS interim financial statements for periods ended 30 June 2011.

III.II SPECIFIC AREAS STUDIED IN 2011

39. This section focuses on the main pieces of work which have been identified as priorities at European level in 2011.

A) Enforcer’s review of the application of IFRS 8 – Operating segments

40. In its working priorities for 2011, ESMA decided to carry out a post-implementation review of IFRS 8 – *Operating Segments*, based on the experience gained by European enforcers as part of their enforcement activities. This initiative was also prompted by issues that were identified in 2010 and which were submitted in a formal letter to the IASB proposing recommendations for the IASB’s Annual Improvements Project (ESMA/2011/117).
41. ESMA together with national enforcers analysed financial information of 118 European listed entities preparing consolidated financial statements under IFRS, mainly coming from 9 European countries with the largest capital markets in Europe. The reviews were performed on 2009 and/or 2010 financial statements.
42. The review focused on five main areas that pose significant challenges either to preparers, investors and/or enforcers: identification of the chief operating decision maker, aggregation of operating segments into reportable segments, measurement basis of information presented under IFRS 8, analysis of entity-wide disclosures and comparison of geographical segment information disclosed under IFRS 8 and IAS 14, the superseded standard.
43. The review has been published in November 2011 as an ESMA Report – *Enforcers’ review of the application of IFRS 8 – Operating Segments* (ESMA/2011/372⁶). One of the areas mentioned in the report regarding aggregation of operating segments has been included in the *Annual Improvements Cycle 2010-2012* by the IASB.
44. In addition, when responding to a motion of the European Parliament requesting further analysis on potential deficiencies such as the level of change in the geographical information communicated by companies or measures used for reporting entity’s performance, the European Commission based itself on ESMA’s report.

⁶ http://www.esma.europa.eu/system/files/2011_372.pdf

B) Consultation Paper Considerations of materiality in financial reporting

45. A recurring theme as part of the coordination of IFRS enforcement is the apparent differing views regarding the practical application of the concept of materiality amongst preparers, auditors, possibly users of the financial reports and, in some instances, accounting enforcers. Considering the role and implication of materiality in financial reporting, EECS established by the end of 2010 a working group to work on materiality issues.
46. The work led to the publication of a Consultation Paper (ESMA/2011/373⁷). The purpose of the Consultation Paper was to seek comments from interested parties on their understanding of various aspects of materiality in an effort to contribute to a consistent application of this important concept in financial reporting. ESMA is currently preparing an analysis of the feedback it received and will decide on next steps to be followed in this area.

C) Enforcers decisions published by ESMA

47. In line with Standard No 2, ESMA regularly publishes enforcement decisions to contribute to the promotion of market confidence and the convergence of the application of IFRS. As of 31 December 2011, a total of 129 decisions have been published, spread across 11 packages, 2 of which, containing 18 decisions, were published during 2011 (ESMA/2011/62⁸ and ESMA/2011/265⁹). ESMA plans to publish further packages on a regular basis. Published decisions are also communicated to IOSCO and are included in the IOSCO database.

D) Revision of Enforcement Standards

48. In 2010, ESMA started reviewing the current standards on enforcement of financial information to take into account experience gained in using the standards over the last 6 years. A preparatory fact-finding exercise to better understand European enforcement was launched in 2010 and finalised in 2011. The outcome of the exercise together with identified possible improvements to the IFRS enforcement constitutes the basis for ESMA to continue its work on the revision of the guidance on European enforcement.

⁷ http://www.esma.europa.eu/system/files/2011_373_.pdf

⁸ http://www.iaasa.ie/publications/ESMA/2011_62.pdf

⁹ http://www.esma.europa.eu/system/files/2011_265.pdf

III.III Areas identified for discussion with the IFRS IC

49. In 2011, EECS met twice with IFRS IC representatives in order to discuss complex issues identified by European enforcers for which either there is no specific IFRS guidance or where widely diverging interpretations appeared to exist. Fourteen issues were addressed in these meetings and included items related to:
- Impairment on a disposal group exceeding the carrying amount of the goodwill and the non-current assets of the disposal group;
 - Revenue recognition and provisions related to termination of lease contracts;
 - Assessment of linked transactions as part of market regulation requirements;
 - Assessment of impairment indicators for sovereign bonds.
 - Recognition of a gain by the parent company in the particular case of a spin-off; and
 - Accreting payments;
50. The meetings also gave enforcers the opportunity to provide the IFRS IC with feedback on how standards are being applied in practice and to indicate where there might be a degree of uncertainty as to how they are being interpreted.

III.IV Analysis of findings identified as part of enforcement activities in 2011

51. This section focuses on the main findings coming out of enforcement activities in 2011 and the areas where issuers were most often challenged by European enforcers.

A) Main results of the review process in 2011

52. In 2011, European enforcers performed full reviews of around 850 compared to 1,000 in 2010 companies' accounts (annual and interim), covering in the region some 12 % (15% in 2010) of listed entities in Europe. In addition, 1 100 accounts compared to 700 in 2010 were subject to partial review, representing coverage of 16% (10% in 2010) of the population of listed entities. The coverage from one country to another varies because of the very different number of issuers across jurisdictions and diversity in their size and risk profile.
53. The main areas for attention arising from the sample of listed entities selected by European were:
- impairment of financial and non-financial assets;
 - financial instruments disclosure;
 - going concern; *and*
 - consolidation.

54. The enforcement actions taken by enforcers as a result of their reviews can be split as follows:
- 18 (in 2010: 22) actions required issuance of revised financial statements;
 - around 150 (in 2010: 220) actions required public corrective notes or other public announcement; *and*
 - around 420 (in 2010: 380) actions required corrections in future financial statements.

Enforcers also took other actions, such as a notice to the issuer, but without requiring any corrective action or public announcement.

B) Overall assessment of the quality of IFRS reporting in the EEA

55. Since the first application of IFRS in the EEA in 2005, issuers of financial information have developed significant experience in IFRS accounting which is reflected in the quality of their financial reporting which, generally, European enforcers have found to have improved year on year. Nevertheless, based on the number of actions taken during 2011, competent authorities consider there is still room for improvement in the quality of issuers' financial reporting.
56. Companies have continued to face risks to their businesses as a result of the continuing generally unfavourable economic climate. Within this context, the disclosure of the possible impact of risks and uncertainties faced by the issuers regarding judgements and estimates used in the preparation of financial information has gained even more importance. Nevertheless, there are still issuers that have not achieved a satisfactory level of transparency, mainly because of their continued use of boiler-plate disclosures rather than attempting to accurately describe facts specific to the issuer and/or transaction.

C) Selection of issues identified by European enforcers

57. The examples presented under this section reflect those areas that featured more commonly in decisions brought to EECS for discussion and where value is seen in sharing experiences and regulatory responses. In some cases, problems arose simply because of the alternative accounting treatments which might be acceptable under the relevant standard. Discussion at EECS was intended to raise the level of consistent application and enforcement of the standards subject to the specific facts and circumstances pertaining to the decisions under discussion. The following paragraphs reflect those areas which featured more frequently in approaches to companies and where relatively more infringements were detected which required corrective action.

58. The following examples are not intended to represent all types of issues discussed at EECS nor all areas where application of IFRS had been challenged by European enforcers; they are merely illustrative of some of the more frequent questions raised.
59. *Financial instruments - Disclosures related to fair value hierarchy*: The fair value hierarchy in IFRS 7- *Financial Instruments*: Disclosures focus on the methods used to determine the fair value and the inputs used in valuation techniques. While the availability of inputs might affect the valuation technique selected to measure fair value, IFRS 7 does not provide specific guidance as to how an entity should determine the significance of individual inputs and to prioritise the use of one technique over another. This assessment requires judgment and consideration of factors specific to the asset or liability (or group of assets and/or liabilities) being measured. In many cases, the use of sensitivity analysis or stress testing may be appropriate approaches to assess the effects of changes in unobservable inputs on a fair value measure. Some issuers still have difficulties in providing disclosures regarding the specific techniques or assumptions used in valuation of particular financial assets.
60. *Presentation of Financial Statements -Going concern*: According to IAS 1 - *Presentation of Financial Statements*, an entity shall prepare the financial statements on a going concern basis unless the management intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. In the aforementioned cases, the liquidation value has to be used. In practice it seems to be difficult to assess at which point in time it might be considered that there is no more realistic alternative to liquidate. It is assumed that as long as the shareholders are supporting providing resources to the company, the entity can claim use the going concern assumption when preparing the financial statements.
61. *Business combinations under common control*: This area is scoped out from IFRS 3. Transactions falling under this category combined with the fact that some qualified as reverse acquisitions and/or had complex share-based schemes payment involved posed challenges to both preparers and enforcers. Due to the lack of specific IFRS guidance, significant judgment is involved in these cases.
62. *Impairment of non-financial assets - Measurement of impairment loss and interaction with IFRS 8*: The revised requirement in IAS 36 - *Impairment of non-financial assets* following the introduction of IFRS 8 stipulates that the cash generating units (CGUs) shall not be larger than the operating segments according to IFRS 8. There were issuers with a matrix organisation which used the management approach to define cash-generating units for the purpose of monitoring goodwill without taking the segments into consideration. Various parts of different segments have been included in each CGU, and as a consequence goodwill impairment by segment could not be calculated and disclosed, contrary to the requirement of IAS 36.
63. *Impairment of non-financial assets - Use of discount factor*: As part of the impairment process, IAS 36 requires that future cash flows are estimated in the currency in which they will be generated and then discounted using a discount rate appropriate for that currency.

When analysing the inputs used by issuers, there were inconsistencies identified related to the use of appropriate risk free interest rate, beta, cost of debt etc.

64. *Impairment of non-financial assets - Disclosures on impairment losses:* Enforcers reviewed the disclosures made by the issuers to see whether adequate information had been provided with respect to the circumstances triggering recognition of an impairment loss. Enforcers have identified issuers which were not able to provide sufficiently clear explanations on the triggering events and on the assumptions used by the management in the determination of the recoverable amounts.
65. *Consolidation - Scope of consolidation:* The assessment of whether an entity should be consolidated on the basis of the de facto control involves judgement. Enforcers identified cases in which there were two issuers consolidating the same group on the basis of the “de facto” control.
66. *Interaction between IAS 27 - Consolidated and Separate Financial Statements and IFRIC 17- Distribution of Non-cash Assets to Owners:* The application of the requirements of IFRIC 17 posed challenges in cases of complex transactions, involving combinations between entities under common control which are scoped out by IFRS 3. Different interpretations related to the recognition and measurement of liabilities at fair value or costs have been identified.
67. *Operating segments – Aggregation of operating segments:* As part of the review of financial statements, enforcers identified cases where operating segments had been aggregated but where no explanation had been provided as to which individual operating segments had been aggregated, or as to whether an assessment had been made that aggregation of the segments was compliant with IFRS 8 paragraph 12. A more detailed analysis of other IFRS 8 application issues was included as part of the enforcer’s review report, as mentioned in section III.II.

Non-current assets held for Sale and Discontinued Operations: Incorrect application of the requirements of the IFRS 5 have been identified with respect to matters such as: inappropriate classification of assets as held for sale beyond the initial period of 12 months, inappropriate allocation of impairment losses to elements included in the group of assets held for sale and allocation of provisions related to activities to be divested as part of continued activities.

IV ESMA'S CO-OPERATION WITH THIRD COUNTRY AUTHORITIES

A) IFRS Seminar on enforcement

68. Accounting enforcers from around 30 countries met on 1 and 2 December 2011 in Paris, following an invitation by ESMA to discuss IFRS enforcement matters. In addition to representatives from national enforcers, Hans Hoogervorst, Chair of the International Accounting Standards Board (IASB), Arnold Schilder, Chair of International Auditing and Assurance Standards Board (IAASB), and representatives from the European Commission and the International Organization of Securities Commission Organizations (IOSCO) participated in the meeting.
69. ESMA's decision to organise this seminar reflects ESMA's strong commitment to strengthen the dialogue with third-country IFRS enforcers with a view to enhance cooperation and the consistent application of IFRS around the globe.

B) Co-operation with the US SEC

70. ESMA and the US SEC have common objectives in promoting high quality and consistent application of reporting standards and avoiding conflicting regulatory decisions on the application of both IFRS and US GAAP. In order to fulfil these objectives, the two parties meet regularly since 2006 to discuss areas of common interest or concern, such as convergence of US GAAP and IFRS and enforcement issues.
71. As part of its work plan considering the use of IFRS for domestic issuers, the US SEC carried out an analysis of how IFRS is applied in practice and published a report in November 2011¹⁰. Approximately 80% of the sample of issuers included in the report consists of European listed companies. The report states that IFRS financial statements generally appear to comply with IFRS. Nevertheless, the report also mentions that transparency and clarity of the financial statements in the sample could be enhanced and that apparent diversity in the application of IFRS may present challenges to the comparability of financial statements.
72. ESMA launched an analysis in order to determine whether in addition to the fact that some IFRSs allow for different options and some areas lack of guidance, there are other issues identified in the report that might need to be considered as part of enforcement and merit further investigations.

¹⁰ <http://www.sec.gov/spotlight/globalaccountingstandards/ifrs-work-plan-paper-111611-practice.pdf>

73. As part of the dialogue on the outcome of accounting enforcement in 2010, the following areas were identified as causing problems in the application of both sets of standards: application of the management approach and of the aggregation criteria for operating segments; parameters used as part of the determination of impairment of non-financial assets, disclosures on financial instruments, business acquisitions under common control.
74. An important aspect discussed during the meetings with the SEC was the development of the IASB/FASB Memorandum of Understanding and in particular the finalisation of the standards on financial instruments, insurance revenue recognition and leases.
75. At the end of 2011, about one third of European countries had signed individual protocols with the US SEC relating to the exchange of confidential information on dual listed issuers and considered this as an effective tool in enforcement cooperation. The US SEC has indicated that it will continue to remain in contact with other European enforcers on a case by case basis.

C) Co-operation with other enforcers

76. As part of its objective to expand cooperation with enforcers from countries having adopted or in course of adopting the IFRSs, ESMA initiated contact with the Japanese Financial Services Authority which has led to various exchanges of information regarding the state of IFRS adoption and enforcement in Japan.

Appendix I – List of European enforcers

Member State	European Enforcer	
Austria	Financial Market Authority ¹¹	FMA
Belgium	Financial Services and Markets Authority	FSMA
Bulgaria	Financial Supervision Commission	FSC
Cyprus	Cyprus Securities and Exchanges Commission	CySEC
Czech Republic	Czech National Bank	CNB
Denmark	Danish Financial Services Authority Danish Commerce and Companies Agency ¹²	Finanstilsynet DCCA
Estonia	Estonian Financial Supervision Authority	EFSA
Finland	Finish Financial Supervisory Authority	FIN-FSA
France	Financial Markets Authority	AMF
Germany	German Federal Financial Supervisory Authority Financial Reporting Enforcement Panel	BaFin FREP
Greece	Hellenic Capital Market Commission	HCMC
Hungary	Hungarian Financial Supervisory Authority	HFSA
Ireland	The Central Bank of Ireland Irish Auditing and Accounting Supervisory Authority	CBI IAASA
Iceland	Financial Supervisory Authority	FME
Italy	Companies and Securities National Commission	Consob
Latvia	Financial and Capital Markets Commission	FCMC
Lithuania	Lithuanian Securities Commission ¹³	LSC
Luxembourg	Financial Markets Supervisory Commission	CSSF
Malta	Malta Financial Services Authority	MFSA
Netherlands	Netherlands Authority for the Financial Markets	AFM
Norway	Norway Financial Supervisory Authority	NFSA
Poland	Polish Financial Supervision Authority	PFSA
Portugal	Securities National Commission Bank of Portugal Insurance Portugal Institute	CMVM BP ISP

¹¹ “The FMA acts as the Austrian contact for the Standing Committee Corporate Reporting, but there is no Austrian enforcer yet

¹² from 1 January 2012, the Danish Business Authority

¹³ from 1 January 2012, the Bank of Lithuania (LB) took over the functions of the liquidated Lithuanian Securities Commission (LSC)

Romania	Romanian National Securities Commission	CNVMR
Slovakia	National Bank of Slovakia	NBS
Slovenia	Securities Market Agency	SMA
Spain	Spanish Securities Market Commission	CNMV
Sweden	Swedish Financial Supervisory Authority The Nordic Growth Market Nasdaq OMX Stockholm	Finansinspektionen NGM AB Nasdaq OMX
United Kingdom	Financial Services Authority Financial Reporting Review Panel	FSA FRRP