

## STATEMENT

### European common enforcement priorities for 2024 corporate reporting

#### OBJECTIVE

The European Securities and Markets Authority (ESMA) issues its annual Public Statement setting out the European common enforcement priorities (ECEP) for the 2024 annual financial reports<sup>1</sup> of issuers admitted to trading on European Economic Area (EEA) regulated markets.

ESMA, together with national enforcers in the EEA (enforcers), will pay particular attention to these areas when examining the application of the relevant reporting requirements. In addition, enforcers will continue to focus on other entity-specific issues. Based on the examinations performed, enforcers will take enforcement actions whenever material misstatements are identified and ESMA will subsequently report on their findings. In addition to these European priorities, enforcers may also set national priorities.

ESMA underlines the responsibility of management and supervisory bodies of issuers as well as the importance of the oversight role of audit committees to:

- ensure the overall internal consistency of the annual financial report,
- implement and supervise internal controls, and
- ultimately contribute to high-quality annual financial reports.

ESMA urges issuers, auditors and supervisory bodies to consider the topics and detailed recommendations included in this Public Statement when preparing, auditing and supervising the 2024 annual financial reports. These recommendations should be taken into account in light of their materiality and relevance for the issuer's operations and annual financial report.

#### CONTENTS

The following topics are addressed in the 2024 ECEP for IFRS financial statements, sustainability statements and annual financial reports submitted in the European Single Electronic Format (ESEF):

Priorities related to IFRS financial statements <i>Section 1</i>	Priorities related to sustainability statements <i>Section 2</i>	Priority related to ESEF reporting <i>Section 3</i>
Liquidity considerations	Materiality considerations in reporting under ESRS	
Accounting policies, judgements and significant estimates	Scope and structure of the sustainability statement	Common errors found in the <i>Statement of Financial Position</i>
	Disclosures relating to Article 8 of the Taxonomy Regulation	

This Statement also provides, in [section 4](#), some general remarks on topics. These topics, which include **connectivity between financial and sustainability statements**, continue to be of particular importance for issuers. Although these topics are not enforcement priorities for 2024, issuers should consider these additional points of attention because they refer to (i) reminders of prior recommendations to improve corporate reporting practices, (ii) areas which may be relevant for specific sectors or lines of activity, or (iii) upcoming reporting requirements.

<sup>1</sup> As defined by Article 4 of Directive 2004/109/EC (Transparency Directive or TD).

## SECTION 1: PRIORITIES RELATED TO IFRS FINANCIAL STATEMENTS

### 1.1 Priority 1: Liquidity considerations

#### *Supplier finance arrangements (SFA)*

ESMA reminds issuers of the importance of liquidity risk disclosures<sup>2</sup>. ESMA highlights, in particular, the new disclosure requirements in IAS 7 *Statement of Cash Flows* in relation to SFA and their effects on the issuers' exposure to liquidity risk. ESMA notes that these disclosure requirements apply to all arrangements that meet the characteristics described in paragraph 44G of IAS 7. Issuers should ensure they identify all material SFA to which the disclosure requirements apply. ESMA reminds issuers that the new paragraph 44H of IAS 7 requires disclosure of the terms and conditions of the SFA, such as extended payment terms and security or guarantees provided.

Moreover, the following information shall be provided as at the beginning<sup>3</sup> and end of the reporting period: (i) the carrying amounts and associated line items of the financial liabilities presented in the statement of financial position that are part of a SFA with separate disclosure of the financial liabilities for which suppliers have already received payment from finance providers, and (ii) the range of payment due dates for the financial liabilities that are part of a SFA and comparable trade liabilities that are not part of a SFA. In addition, the type and effect of non-cash changes in the carrying amounts of the financial liabilities that are part of a SFA must be disclosed.

Although these disclosures shall be provided in aggregate, issuers are required to disclose separately the terms and conditions of arrangements that have dissimilar terms and conditions. Issuers should ensure an appropriate level of aggregation (or disaggregation) of information regarding SFAs in their financial statements to avoid omitting or obscuring material information<sup>4</sup>. Where ranges of payment due dates are wide, issuers shall disclose explanatory information about the judgements made when defining those ranges or disclose additional ranges (for example, stratified ranges). ESMA also notes that further disclosures may be necessary to meet the objective of paragraph 44F of IAS 7 and to enable users to assess the effects of SFA on issuers' financial statements.

Finally, ESMA also emphasises that the access to facilities under SFA that provide the issuer with extended payment terms or the issuer's suppliers with early payment terms should be considered when providing disclosures required by IFRS 7 on how the issuer manages the liquidity risk inherent in the related liabilities<sup>5</sup>.

#### *Covenants*

ESMA reminds issuers of the clarifications and the new disclosures under IAS 1 related to non-current liabilities with covenants and the disclosures required by IFRS 7 regarding loans payable, in particular if there were defaults, breaches or renegotiations of loan agreements<sup>6</sup>. Paragraph 76ZA of IAS 1 requires disclosure of information that enables users of financial statements to understand the risk that liabilities could become repayable within twelve months after the reporting period, when the issuer classifies liabilities arising from loan arrangements as non-current and when its right to defer the settlement of those liabilities is subject to compliance with covenants within twelve months after the reporting period.

The amendments clarify that if a liability does not meet the criteria in paragraph 69 of IAS 1, it should be classified as non-current even if management intends or expects the issuer to settle it within twelve months after the reporting period. Where material, issuers should disclose information about the timing of settlement to enable users to understand the impact of the liability on their financial position<sup>7</sup>. In particular, issuers should disclose, as non-adjusting events in accordance with IAS 10 *Events after the Reporting Period*, the settlement of a liability classified as non-current occurring between the end of the reporting period and the date the financial statements are authorised for issue (e.g. borrowing or covenant renegotiations)<sup>8</sup>.

<sup>22</sup> [ECEP](#) for 2023 annual financial reports and Paragraphs 33, 34, 39 and B10A of IFRS 7 *Financial Instruments: Disclosures*.

<sup>3</sup> Issuers are not required to disclose information as at the beginning of the annual reporting period in which they first apply these amendments.

<sup>4</sup> Paragraphs 29 to 31 of IAS 1.

<sup>5</sup> Paragraphs 39(c) and B11F(j) of IFRS 7.

<sup>6</sup> Paragraphs 18 and 19 of IFRS 7.

<sup>7</sup> Paragraph 75A of IAS 1.

<sup>8</sup> Paragraph 76(d) of IAS 1.

Finally, ESMA reminds issuers that they should reclassify liabilities as current when they do not comply with a covenant at year-end even if they have obtained a waiver after the end of the reporting period<sup>9</sup>.

### *Statement of Cash flows (SCF)*

ESMA also draws issuers' attention to the following requirements where enforcers have, in the past, identified cases of non-compliance: (i) cash flows in the SCF must be presented on a gross basis<sup>10</sup>, (ii) non-cash transactions cannot be presented in the SCF, and (iii) material non-cash transactions related to investing and financing transactions must be disclosed elsewhere in the financial statements<sup>11</sup>.

Finally, ESMA reminds issuers that bank borrowings are generally considered to be financing activities. Only bank overdrafts that are repayable on demand and form an integral part of an entity's cash management are included as a component of cash and cash equivalents<sup>12</sup>. Banking facility arrangements should usually be presented as financing activities if a fluctuation on the balance between negative to positive does not often occur in practice<sup>13</sup>.

ESMA calls for transparency with regards to the accounting policies and judgements made by issuers regarding the classification of cash flows<sup>14</sup> (e.g. interest, dividends, cash flows from leases<sup>15</sup>, SFA<sup>16</sup> and other complex or infrequent transactions) and/or components of cash and cash equivalents.

## **1.2 Priority 2: Accounting policies, judgements, significant estimates**

### *General remarks*

ESMA emphasises that disclosures of material accounting policies, judgements and sources of estimation uncertainty should be (i) entity-specific (e.g. issuers should only describe the accounting policies and valuation methods used by them, for instance, in impairment tests or when determining fair-value<sup>17</sup>) and (ii) consistent with other information within the financial statements (e.g. issuers should consider including sensitivity analyses when there is a risk that small changes in the assumptions or estimates lead to material adjustments to carrying amounts). Issuers should refrain from merely repeating the IFRS requirements as this may result in boilerplate disclosures that obscure relevant information and impair the understandability of financial statements<sup>18</sup>.

Furthermore, issuers should clearly disclose: (i) the judgements made that have the most significant effect on the amounts recognised in the financial statements<sup>19</sup>, and (ii) the assumptions about the future and other major sources of estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year<sup>20</sup>. Moreover, issuers should assess and, if relevant, explain whether and how estimation uncertainty is affected by significant current developments (e.g. macroeconomic, technological, social, climatic and geopolitical).

### *Control, joint control and significant influence*

ESMA notes that determining whether the issuer controls an entity (alone or jointly with other investors) or has significant influence over an investee may require significant judgement<sup>21</sup>. This is particularly relevant when other factors than the voting rights need to be considered, such as: (i) one or several investors have special rights under existing contracts (articles of association or agreements between shareholders) with respect to voting or nominating directors, (ii) the investee is subject to specific legal regimes, including the involvement of government agencies or requirements for nomination of directors, (iii) investors are subject to legal provisions, such as limitations on capital involvement in the investee, or (iv) temporary circumstances exist, e.g. the issuer holds options on the investee's equity.

<sup>9</sup> Paragraph 74 of IAS 1.

<sup>10</sup> Paragraphs 18 and 21 of IAS 7. If the indirect method (paragraph 18(b)) is used to report cash flows from operating activities, adjustments to profit or loss (e.g. non-cash adjustments) are not required to be presented on a gross basis.

<sup>11</sup> Paragraph 43 of IAS 7.

<sup>12</sup> Paragraphs 7 to 9 of IAS 7, IFRS IC's [Agenda Decision: Classification of short-term loans and credit facilities](#), June 2018.

<sup>13</sup> Paragraphs 31, 112 (c) of IAS 1.

<sup>14</sup> Paragraph 122 of IAS 1.

<sup>15</sup> Paragraph 50 of IFRS 16 *Leases*.

<sup>16</sup> Paragraph 122 of IAS 1, IFRS IC's [Agenda Decision: Supply Chain Financing Arrangements: Reverse Factoring](#), June 2020. In the case of SFAs, issuers may also need to disclose the judgements used in the classification of liabilities (e.g. trade or other financial liabilities).

<sup>17</sup> These disclosures are in particular required if significant judgements or assumptions in applying an accounting policy are made (paragraph 117B(d) of IAS 1).

<sup>18</sup> Paragraph 30A of IAS 1.

<sup>19</sup> Paragraph 122 of IAS 1.

<sup>20</sup> Paragraph 125 of IAS 1.

<sup>21</sup> See relevant requirements in IAS 28, IFRS 10 and IFRS 11.

Issuers should pay careful attention to the requirements of paragraphs 7-9 of IFRS 12 *Disclosure of Interest in Other Entities* and provide clear and detailed disclosures about the significant judgements they made when assessing control, joint control and significant influence.

#### *Revenue from contracts with customers*

ESMA notes that the assessment of whether issuers' long-term contracts (e.g. rental agreements) meet the definition of a contract with a customer<sup>22</sup> may require significant judgement, therefore, issuers may need to disclose the judgements used when making this assessment. Furthermore, ESMA points out that in the case of long-term contracts with customers (e.g. construction contracts), where the fulfilment of the corresponding obligations extends over several accounting periods, there is often uncertainty regarding revenues and costs<sup>23</sup>. Given the macroeconomic environment (changes in interest rates, inflation), ESMA highlights that issuers should ensure that forecasts used are reasonable and supportable, particularly when measuring the progress towards complete satisfaction of a performance obligation when revenue should be recognised over time. For onerous (overall loss-making) contracts, the present obligation under the contract shall be recognised and measured as a provision<sup>24</sup>. In this context, ESMA highlights the disclosure requirements for provisions under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, including the disclosure of uncertainties about the amount and timing of the outflows of economic benefits and (where necessary) the major assumptions made concerning future events<sup>25</sup>.

Moreover, ESMA notes that when another party is involved in providing goods or services to a customer, the recognition of revenue under IFRS 15 depends on whether the issuer acts as principal or as an agent of the other party, the assessment of which may require significant judgement<sup>26</sup>, for instance when issuers operate online shopping platforms or provide services such as software licenses<sup>27</sup>.

ESMA highlights the information required by paragraph 120 of IFRS 15 about the amount and timing of revenue that issuers expect to recognise from their existing contracts (often also referred to as 'backlog') that enables users to assess the risks associated with expected future revenue. Issuers should provide explanations of the significant judgements used (and potential effects of any changes) when determining estimates. In addition, ESMA considers it particularly useful that issuers provide reconciliations between the opening and closing balances of the remaining performance obligations, which may include, for example, the following amounts: new and cancelled customer contracts during the year, issued invoices, effects of the changes in group structure as well as effects of currency fluctuations. Finally, ESMA reminds issuers that when they include backlog measures in the management report, they may need to comply with the ESMA Guidelines on Alternative Performance Measures (APMs)<sup>28</sup>.

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<sup>22</sup> Paragraph 9 and Appendix A of IFRS 15 *Revenue from Contracts with Customers*.

<sup>23</sup> In this respect, issuers should particularly consider the requirements prescribed in paragraphs 56-57 of IFRS 15, i.e. issuers shall only include a variable consideration in a transaction price to the extent that it is highly probable that a significant reversal in the amount of the revenue recognised will not occur.

<sup>24</sup> Paragraphs 66 to 69 of IAS 37.

<sup>25</sup> Paragraphs 84 to 87 of IAS 37.

<sup>26</sup> Paragraphs B34 to B38 of IFRS 15.

<sup>27</sup> IFRS IC's [Agenda Decision](#) on *Principal versus Agent: Software Reseller* and decision EECS/0124-06: [28<sup>th</sup> Extract](#) from the FRWG (EECS)'s Database of Enforcement.

<sup>28</sup> ESMA, Guidelines, [ESMA Guidelines on APMs](#), 5 October 2015 and decision EECS/0125-08: [29<sup>th</sup> Extract](#) from the FRWG (EECS)'s Database of Enforcement.

## SECTION 2: PRIORITIES RELATED TO SUSTAINABILITY STATEMENTS

### 2.1 Priority 1: Materiality considerations in reporting under ESRS

Conducting a thorough materiality assessment covering both impact and financial materiality is the starting point for the determination of the information to be disclosed in the sustainability statement. To this end, ESMA reiterates its recommendation to pay attention to EFRAG's Implementation Guidance on *Materiality Assessment* (IG1)<sup>29</sup> when applying the relevant requirements in the European Sustainability Reporting Standards (ESRS)<sup>30</sup>.

Detailed disclosures on the assessment process itself, in accordance with ESRS 2 *General Disclosures*, are key to enable users of the sustainability information to gain a full understanding of the extent of the different steps the issuer has undertaken to reach its materiality conclusions, including through providing sufficient information on the activities, business relationships, geographies and stakeholders considered. ESMA highlights the specific datapoints within Disclosure Requirement (DR) IRO-1 related to input parameters (par. 53 (g)), as well as the need to disaggregate in the disclosures the processes followed for impacts (par. 53 (b)), risks and opportunities (par. 53 (c)) (referred to collectively as 'IRO').

One crucial aspect of the materiality assessment process relates to the sustainability due diligence process, including the engagement with affected stakeholders. According to Section 4 of ESRS 1 *General Requirements*, the impact materiality process is informed by the outcome of any sustainability due diligence processes implemented by the issuer. Disclosures pursuant to DR IRO-1 should clearly reflect this connection.

Regarding the engagement with affected stakeholders, ESMA highlights that several DRs of ESRS 2 relate to whether and how an undertaking engages with its stakeholders, including in relation to its materiality assessment process (DR IRO-1 par. 53 (b)(iii)). In this regard, ESMA notes that FAQ 16 of IG1 clarifies that the objective of such engagement is to obtain the views of the key affected stakeholders. ESMA expects that issuers provide full transparency in their disclosures in accordance with DR SBM-2 and DR IRO-1 on how they identify and prioritise the stakeholders with which they engage. ESMA also notes that FAQ 10 of IG1 states that, where possible, the materiality assessment relies on quantitative information as objective evidence of the materiality of an impact, risk or opportunity.

ESMA underlines the importance for issuers to carefully consider the materiality regime associated with the ESRS disclosures. ESMA notes that Section 3.2 of ESRS 1 defines the materiality regime attached to the different types of DRs which is further illustrated in Appendix E of ESRS 1. More specifically, ESMA emphasises the fact that, irrespective of materiality, all DRs and their datapoints in ESRS 2 are mandatory. This includes all DRs and datapoints related to DR IRO-1 in topical standards, whether or not the related topics are eventually found to be material as a result of the materiality assessment process.

Issuers not exceeding the average number of 750 employees, which can benefit from phase-in provisions in Appendix C of ESRS 1 allowing for the temporary omission of entire topical standards, shall nonetheless disclose whether the corresponding sustainability topics have been assessed to be material, as prescribed in par. 17 of ESRS 2.

Disclosures pursuant to ESRS 2-related DRs in topical standards, other than DR IRO-1, as listed in Appendix C of ESRS 2, are required if the topic is material. Regarding the DRs related to Policies, Actions and Targets in the topical standards, the disclosures (or a statement explaining that the issuer has no policy, action, or target in those areas and, on an optional basis, the timeframe to adopt one) are mandatory for each material sustainability matter listed in par. AR16 of ESRS 1. ESMA reminds issuers that ESRS Application Requirements (AR) are an integral part of ESRS and have the same authority as the main Standards. ESMA also stresses that while entity-specific information is required when a material IRO is not, or only insufficiently

<sup>29</sup> [EFRAG IG1 Materiality Assessment](#).

<sup>30</sup> European Sustainability Reporting Standards to be used by undertakings in the preparation of their sustainability statement in

compliance with Articles 19a and 29a of the Accounting Directive. A first set of sector-agnostic ESRS (Set 1) has been adopted by [Commission Delegated Regulation \(EU\) 2023/2772](#).

addressed by an ESRS, (par. 11 and AR 1 to 5 of ESRS 1), such information should only be included if it is material and it meets the qualitative characteristics of information listed in ESRS 1.

ESMA also notes that while all topical standards are subject to the same materiality regime, for climate change-related disclosures as set out in ESRS E1 *Climate Change*, an enhanced transparency regime is in place. According to par. 57 of ESRS 2, if an issuer omits all DRs in ESRS E1 as a result of its materiality assessment, it shall provide a detailed explanation for this fact, including a forward-looking analysis of the conditions that could lead to climate change becoming material in the future.

Finally, ESMA stresses the requirement in DR IRO-2 par. 56 and AR 19 of ESRS 2 to list the DRs complied with in the sustainability statement, including page numbers and paragraphs. ESMA encourages issuers to present this disclosure as a content index which could support the completeness of the disclosures and enable easier navigation in the sustainability statement for users. ESMA also highlights the requirement to include a table of all datapoints derived from other EU legislation as listed in Appendix B of ESRS 2. In addition, par. 48(h) of ESRS 2 requires companies to specify whether the identified IROs are covered by applying ESRS DRs as opposed to entity-specific disclosures.

## **2.2 Priority 2: Scope and structure of the sustainability statement**

ESMA underlines that the sustainability statement shall be for the same reporting undertaking as the financial statements, as stated in Section 5.1 of ESRS 1. In this regard, DR BP-1 in ESRS 2, which is to be disclosed irrespective of materiality, requires confirmation that for consolidated sustainability statements, the same scope of consolidation has been used as for the consolidated financial statements. As a consequence, and unless specified otherwise in the topical standards, as indicated in FAQ 22 of IG1, once metrics have been determined to be material for the group, the data for the entire group shall be included in the metrics.

ESMA also notes that the information provided in the sustainability statement is extended to cover information on material IROs connected with the undertaking's value chain, as set out in par. 63 to 67 of ESRS 1. In this regard, ESMA highlights that DR BP-1 also requires disclosure on the extent of the value chain.

Section 10.2 of ESRS 1 envisages some transitional reliefs in relation to value chain information for the first three years of an issuer's sustainability reporting under ESRS. In accordance with par. 132 of ESRS 1, when applying these transitional reliefs, issuers are still required to explain the efforts made to obtain the necessary information about their value chain, the reasons why not all of the necessary information could be obtained and their plans to obtain this information in the future.

ESMA underlines that the structure of the sustainability statement is prescribed by Section 8 of ESRS 1 (as further illustrated in Appendix D of that Standard) with possibilities for incorporation by reference under specific conditions listed in Section 9.1 of ESRS 1. ESMA encourages issuers to apply the detailed structure provided in Appendix F as an illustration and recommends that issuers which have relied extensively on alternative presentation formats for their sustainability statements carefully consider the compliance of their approaches with the relevant ESRS requirements.

ESMA also notes that par. 111 (b) of ESRS 1 sets general objectives for the presentation of the information indicating the importance of facilitating access and understanding of the reported information. In this regard, ESMA recommends that issuers who intend to make use of the possibilities respectively for internal cross-referencing and incorporation by reference highlighted in par. 115 and par. 119 of ESRS 1, ensure that the general presentation objectives are complied with in full (also in consideration of par. 122 of ESRS 1).

Finally, ESMA recalls that par. 118 of ESRS 1 requires undertakings to provide information enabling an understanding of the connections to the other parts of their corporate reporting. In this regard, ESMA highlights the requirement in par. 124 of ESRS 1 regarding the monetary amounts or other quantitative information included in the sustainability statement and that are also presented in the financial statements. For such situations of direct connectivity, a reference to the corresponding information in the financial statements is required by par. 124 of ESRS 1.

## 2.3 Priority 3: Disclosures relating to Article 8 of the Taxonomy Regulation

The recommendations on the Article 8 Taxonomy disclosure made by ESMA in its 2023 Public Statement on the ECEPs<sup>31</sup> remain valid in the context of the broadened set of environmental objectives and climate-related activities, as further highlighted below. These recommendations related to: the use of templates, avoidance of double counting, scanning of activities in relation to all environmental objectives, qualitative disclosures on the assessment of compliance with the technical screening criteria and reporting on CapEx plans.

In particular, ESMA reminds issuers that, independently of the level of eligibility and alignment of the respective economic activities, it is mandatory for all issuers to use the templates set out in the Article 8 Delegated Act<sup>32</sup>, as amended by the Taxonomy Environmental Delegated Act<sup>33</sup>, without any adaptation or amendment. The only case where templates can be omitted is in situations where issuers do not carry out, fund or have exposures to activities referred to in Template 1 of Annex XII of the Article 8 Delegated Act<sup>34</sup>. In this case, the Template 1 itself has to be disclosed, while Templates 2 to 5 can be omitted. Regarding the new templates covering all environmental objectives, ESMA highlights the need to closely follow the indications of the Article 8 Delegated Act including through only using the allowed options in the columns for substantial contribution and Do-No-Significant-Harm (DNSH) criteria.

ESMA underlines the need for non-financial issuers to pay particular attention to situations where an economic activity is eligible to multiple environmental objectives as these cases are bound to be more frequent with four additional environmental objectives being considered for eligibility and alignment. ESMA reminds issuers that they are required in these situations to conduct an assessment for each relevant objective and report on respective eligibility and alignment<sup>35</sup>. In this regard, ESMA highlights the requirement to disclose the accompanying table on overall eligibility and alignment per objective in the footnote of the amended Annex II of the Article 8 Delegated Act.

ESMA also highlights that, when an activity is aligned with multiple environmental objectives, the most relevant objective has to be indicated in bold in the templates. In addition, to properly implement the disclosure requirements, it may be necessary to disaggregate the related activities in several lines of the templates, depending on the number of relevant environmental objectives, and on the proportion of respective turnover, CapEx and OpEx aligned with each of these objectives.

ESMA reminds issuers of the requirements to reference the financial statements and their notes in relation to the various elements included in the turnover and CapEx KPIs. Such reference is required in Section 1.2.1 of Annex I of the Article 8 Disclosure Delegated Act and it is necessary to enable users of the information to reconcile the denominator of the CapEx KPI with the financial figures. In line with its 2023 ECEP recommendation to issuers to disclose their CapEx plans when they report that they seek to expand their taxonomy-aligned activities, ESMA notes that par. 16(e) of ESRS DR E1-1<sup>36</sup> requires, in the context of the disclosures on transition plans for climate change mitigation, an explanation of any objective or plans for the alignment of activities with the Taxonomy criteria and stresses the importance of consistency between Taxonomy disclosures and transition plan disclosures, where applicable.

Regarding issuers of the financial sector, ESMA notes that the European Commission has issued in December 2023 a Draft Notice<sup>37</sup> containing a set of frequently asked questions and encourages issuers to consider them when preparing their disclosures. This Draft Notice encourages financial undertakings to voluntarily disclose estimates of Taxonomy alignment of their exposures which are either currently excluded from their KPIs, or of their exposures which are covered by the KPIs but where financial undertakings currently lack sufficient data or evidence to demonstrate Taxonomy alignment. ESMA stresses that such disclosures should be clearly separated from the legally required Taxonomy KPIs and accompanied by explanations on the applied methodologies.

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<sup>31</sup> [ECEP](#) for 2023 annual financial reports, 25 October 2023.

<sup>32</sup> [Commission Delegated Regulation \(EU\) 2021/2178](#).

<sup>33</sup> [Commission Delegated Regulation \(EU\) 2023/2486](#).

<sup>34</sup> [Draft Commission Notice of December 2023](#), Question 28.

<sup>35</sup> Subject to potential materiality considerations, [Commission Notice C/2023/305](#), Question 13.

<sup>36</sup> [Commission Delegated Regulation \(EU\) 2023/2772](#).

<sup>37</sup> [Draft Commission Notice of December 2023](#).

## SECTION 3: PRIORITY RELATED TO ESEF REPORTING

For the examination of 2024 annual financial reports that are subject to ESEF reporting requirements<sup>38</sup> containing consolidated financial statements, ESMA and enforcers will be targeting the following **areas of common ESEF filing errors** found in the **statement of financial position**. Issuers should holistically consider whether these common error areas impact the different line items when preparing and marking up their statement of financial position.

### Correctness of mark-ups

RTS on ESEF, Annex IV, §3

→ Use the core taxonomy element with the closest accounting meaning to the disclosure being marked up.  
 → Where there appears to be a choice of core taxonomy elements, select the element with the narrowest accounting meaning and/or scope, by carefully reading and assessing the element labels, the documentation labels and the references to the relevant IFRS Accounting Standards of the different taxonomy elements contained in the core taxonomy in Annex VI of the ESEF RTS.  
**Example:** *Equity and liabilities* incorrectly marked up as *Liabilities* and *Retained earnings* as *Other Reserves*.

### Extension taxonomy elements and anchoring

RTS on ESEF, Annex IV, §4, 4(a), 9(a), 9(b)

→ Create **only** an extension taxonomy element when the closest core taxonomy element would misrepresent the accounting meaning of the disclosure being marked up.  
 → Ensure that the extension taxonomy element is anchored to the core taxonomy element having the closest wider accounting meaning and/or scope. When the extension taxonomy element is a combination of core taxonomy elements, ensure anchoring to the narrower core taxonomy elements.  
**Example:** Creating extension taxonomy elements to match word-for-word the text used in human readable AFRs, even though the IFRS Accounting Standards core taxonomy already foresees an appropriate tagging element.

### Consistency and completeness of mark-ups

RTS on ESEF, Annex II, §1, 2

→ Ensure consistency of mark-ups between material items reported in the primary financial statement and the disclosures provided in the related notes.  
**Example:** Reporting and marking up *Current tax assets* and *Current tax liabilities* in the statement of financial position without also providing a marked-up note for *Disclosure of income tax* and/or *Description of accounting policy for income tax*.  
 → Ensure completeness of tagging by marking up all numbers in a declared currency disclosed in the statement of financial position, including any respective footnotes, and by including all mandatory mark-ups contained in Annex II of the RTS on ESEF, if the disclosure is present in the financial statements.  
**Example:** Lacking mark-ups of a numerical value in a declared currency when it appears in a footnote to a line item in the statement of financial position.

### Correctness of signs, scaling and accuracy

ESEF Reporting Manual<sup>39</sup>, Guidance 1.6.1, 2.2.1, 2.2.2

→ Pay careful attention to the ESEF taxonomy definition of a given concept. A fact value is determined to be positive or negative based on this definition.  
**Example:** While most iXBRL numeric elements in the statement of financial position are designed to be entered as positive values, certain credit balance items (such as *Accumulated other comprehensive income*) may need to be reported as negative iXBRL numeric values.  
 → Ensure correct unit of measure, scaling and decimals to which numeric fact values are reported so that, upon extraction, they are transformed into the correct, unscaled value.  
**Example:** Not specifying the correct scale attribute can result in an iXBRL tagged value of “€100 million” being transformed in a data extraction as “€100”.

### Consistency of calculations

RTS on ESEF, Annex IV, §5, 6 and ESEF Reporting Manual, Guidance 3.4.1

→ Document a complete calculation tree that describes and validates the sub-totals and totals in the statement of financial position.  
 → Concepts that are used as the sum of a calculation should also be presented as such in the presentation linkbases. Concepts having “Total” as label role must be part of a summation-item relationship as a Total concept.  
 → Ensure that the calculation linkbase of any extension taxonomy is documenting arithmetical relationships between numeric core and/or extension taxonomy elements.  
**Example:** Incorrectly marked up elements, inconsistent duplicates, as well as incorrect signs, scales and decimals lead to inconsistent calculations.

<sup>38</sup>38 [Regulatory technical standards \(RTS\) on ESEF](#): Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on

the specification of a single electronic reporting format (OJ L 143, 29.5.2019, p. 1).

<sup>39</sup>39 [ESEF Reporting Manual](#), updated 11 July 2024.



## SECTION 4: GENERAL CONSIDERATIONS AND REMINDERS

This section highlights some general considerations and reminders that do not constitute this year's ECEP. Where relevant, ESMA encourage issuers, auditors and supervisory bodies to consider them when preparing, auditing or supervising annual financial reports as some of these considerations relate to future reporting periods, to information (to be) disclosed in the management report and/or to past publications.

### Connectivity between financial and sustainability statements

- ESMA notes that previous years' priorities<sup>40</sup> regarding climate matters continue to be relevant for 2024 annual financial reports. ESMA continues to call for consistency and connectivity between the information related to climate risks and opportunities included in financial statements, the information included in the sustainability statement or elsewhere in the management report. In particular, ESMA notes that issuers (in particular those most exposed to climate matters) may need to disclose<sup>41</sup> in their financial statements the fact that certain climate-related matters presented in the management report have no effect on their financial statements and explain why this is so (e.g. if an issuer's financial statements are expected to be influenced by a lack of understanding of how the issuer's transition plan has affected its financial position and financial performance). Furthermore, ESMA underlines the recent IFRS IC agenda decision on Climate-related commitments (IAS 37)<sup>42</sup> and the IASB Exposure Draft on Climate-related and Other Uncertainties in the Financial Statements Proposed illustrative examples. Both publications provide further insights on how to take climate matters into account in IFRS Financial Statements<sup>43</sup>.

### Considerations on IFRS financial reporting

- ESMA refers to its observations and recommendations in its Report on the application of the IFRS 17 requirements in 2023 financial statements<sup>44</sup> and to its statement 'Clearing the smog: Accounting for Carbon Allowances in Financial Statements'<sup>45</sup> that provides recommendations on disclosures related to the accounting for carbon pricing programmes.

### Considerations on alternative performance measures (APMs)

- As required for all APMs, ESMA reminds issuers that when APMs related to cash-flows or net debt are included in the management report, prospectuses or ad-hoc disclosures, issuers must provide reconciliations to the most directly reconcilable line item, subtotal or total presented in the financial statements<sup>46</sup>.
- Issuers are also reminded that, with the entering into force of IFRS 18 Presentation and Disclosure in Financial Statements (expected in 2027), some APMs will also fit the definition of management-defined performance measures under this standard. This means that some APMs and respective disclosures (such as reconciliations) must be included inside audited financial statements in the future. ESMA encourages issuers to start assessing the effects of the implementation of IFRS 18 on the APMs disclosed in communication documents, management reports and prospectuses and, where necessary, consider adjusting their reporting processes and systems to enable a smooth implementation of the standard.

### Considerations on sustainability reporting

- In 2025, large public-interest entities will publish their first sustainability statements in accordance with the ESRS as envisaged by the Corporate Sustainability Reporting Directive (CSRD<sup>47</sup>). In this regard, ESMA underlines the publication in August 2024 of a Draft Commission Notice<sup>48</sup> clarifying the interpretation of provisions set out in the CSRD.
- ESMA reminds issuers to liaise with their assurance provider to reach a shared understanding of what the assurance requirements entail in terms of the processes for identifying the information to be reported and the outcome of these processes<sup>49</sup>.

<sup>40</sup> ECEP for 2023 annual financial reports; ESMA Report: The heat is on: Disclosures of Climate-Related Matters in the Financial Statements, 25 October 2023.

<sup>41</sup> Paragraph 31 of IAS 1.

<sup>42</sup> IFRS - IFRIC Update March 2024.

<sup>43</sup> Climate-related and Other Uncertainties in the Financial Statements Proposed illustrative examples.

<sup>44</sup> ESMA Report: From "black box" to "open book"? Evidence from the first application of IFRS 17 Insurance Contract, 25 October 2024.

<sup>45</sup> ESMA's Public Statement Clearing the smog: Accounting for Carbon Allowances in Financial Statements, 8 October 2024.

<sup>46</sup> Paragraphs 26 to 32 of the APM Guidelines.

<sup>47</sup> Directive (EU) 2022/2464.

<sup>48</sup> European Commission, Draft Commission Notice, August 2024.

<sup>49</sup> The Committee of European Audit Oversight Bodies (CEAOB) recently issued guidelines on limited assurance on sustainability reporting."

- As set out in ESMA's Final report on greenwashing<sup>50</sup>, with the entry into application of the new CSRD-ESRS regulatory regime, the quality of sustainability reporting is expected to significantly improve thereby helping reduce greenwashing risks.
- In July 2024, ESMA issued a Public Statement<sup>51</sup> on the first application of the ESRS by large issuers to provide early support to issuers in the implementation of the new requirements. While recognising that this first application is an important milestone in the learning curve of issuers and other stakeholders, the Public Statement highlights five key areas warranting close attention:
  - a) establishing governance arrangements and internal controls that can promote high-quality sustainability reporting;
  - b) properly designing and conducting the double materiality assessment and being transparent about it;
  - c) being transparent about the use of transitional reliefs;
  - d) preparing a clearly structured and digitisation-ready sustainability statement; and
  - e) creating connectivity between financial and sustainability information.

While all these areas remain relevant, two of them have been selected to identify specific enforcement priorities in the present Public Statement alongside targeted recommendations on Taxonomy reporting.

### Considerations on ESEF reporting

- The European Commission has recently issued a [draft interpretative notice](#) addressing multiple aspects of the changes introduced by the CSRD into EU legislation, including the digitalisation requirements for sustainability information. Notably, issuers are not required to mark-up their sustainability statements until a specific digital taxonomy is adopted by way of amendment to the ESEF Delegated Regulation<sup>52</sup>. ESMA updates on this amendment will follow in due course.
- As indicated in the above-mentioned ESMA Public Statement on first year application of ESRS, following the structure of the ESRS<sup>53</sup> in the preparation of the sustainability statements would make digital tagging easier and reduce the burden as the digital taxonomy closely follows the structure of the ESRS disclosures. ESMA will also consider this common structure of the ESRS disclosures and of the digital taxonomy when consulting and proposing to the European Commission the tagging requirements for sustainability statements. The level of granularity of the final tagging of the disclosures will be based on the forthcoming rules that ESMA will propose through an amendment to the ESEF delegated regulation.
- ESMA welcomes the improvement in the readability of the text block mark-ups (block tags) observed in the past year, although further work should be performed, particularly considering the importance of narrative disclosures in sustainability statements (and the number of block tags in the upcoming sustainability taxonomy). National enforcers will thus continue monitoring the readability of the information extracted from text block tags (rendered in isolation).
- Finally, issuers are encouraged to continue consulting ESEF Reporting Manual<sup>54</sup> and its updates, which provides further guidance on ESMA's expectations on improving the quality and useability of ESEF data in relation to the matters tackled in this Statement as well as additional topics.

<sup>50</sup> [ESMA36-287652198-2699](#) - Final Report on Greenwashing.

<sup>51</sup> [ESMA32-992851010-1597](#) – Public Statement - Off to a good start: first application of ESRS by large issuers.

<sup>52</sup> Issuers under the TD are required to prepare the management report in XHTML but not to mark it up until the digital taxonomy is adopted.

<sup>53</sup> EFRAG Implementation Guidance 3 is designed to prepare for the development of a digital reporting infrastructure in a way that is aligned with the granularity of the ESRS requirements.

<sup>54</sup> [ESEF Reporting Manual](#), Update July 2024.