

THE CNMV DISCLOSES ITS PRIORITIES FOR SUPERVISING THE ANNUAL ACCOUNTS OF ISSUING COMPANIES

8 February 2021

- In the supervision of the 2020 accounts, particular attention will be paid to the application of the going concern principle, transparency on the use of significant judgements and estimates and to the criteria for the presentation in the financial statements of the impact of COVID-19.
- It will also examine asset impairments, liquidity risk, the methodology for determining expected loss and increase in credit risk, as well as lessee accounting.
- Likewise, the review of the breakdowns of the non-financial statement (NFS) will continue, also focusing on matters such as the social issues affected by COVID-19.

The Spanish National Securities Market Commission (CNMV) has today published the “Report on the CNMV’s supervision of the annual financial reports and main areas of review of the annual accounts for the following financial year. 2019”. The document describes, on the one hand, the priority areas to which it will pay attention in the supervision of the 2020 annual accounts and, on the other, details the supervisory work carried out by the body in relation to the audited annual accounts for the financial year 2019 submitted by the companies.

Supervision plan for the 2020 annual accounts

ESMA and the national EU supervisors have agreed on common enforcement priorities for the 2020 financial statements. The priority areas on which the review of the financial information will focus relate to:

- 1.- *Presentation of financial statements (IAS 1);*
- 2.- *Impairment of assets (IAS 36);*
- 3.- *Financial instruments (IFRS 9) and Financial instruments: disclosures (IFRS 7); and*
- 4.- *Leases (IFRS 16).*

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[CNMV](#) Communications Department

Tel.: 91 5851530 - comunicacion@cnmv.es



Other matters which supervisors shall also give particular attention to are:

- the monitoring of ESMA guidelines on alternative performance measures, in particular in the current context caused by COVID-19;
- the responsibility of entities' management bodies and the importance of the oversight to be carried out by the Audit Committee, given the complexity of the current environment;
- and the breakdown of the impact that Brexit will have on issuers' activities and on their financial and non-financial reporting.

Moreover, the CNMV has decided to include, as an additional financial reporting priority, the monitoring of specific issues related to the application of IFRS 15 *Revenue from contracts with customers*.

During its review of the 2019 accounts, the CNMV also identified a number of other relevant issues that listed companies and their auditors should take into account, such as the entry into force of Delegated Regulation (EU) 2019/815 whereby the annual financial reports of listed companies for financial years beginning on or after 1 January 2020 must be presented in accordance with the European Single Electronic Format (ESEF).

Likewise, those other specific issues that are relevant for the purposes of each company will be reviewed.

With regard to non-financial information, ESMA sets the following priority areas for the 2020 financial year:

- 1.- The impact of the COVID-19 pandemic in relation to non-financial issues;
- 2.- Social and labour issues;
- 3.- Business model and value creation matters; and
- 4.- The risk related to climate change;

In addition, the CNMV has decided to include, within the review plan for the 2020 financial year:

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- a more detailed analysis of dual materiality and how stakeholders influence its assessment;
- information related to climate change.

Financial Reports

The CNMV received 277 audited annual financial reports for 2019 – individual and consolidated – corresponding to 144 securities issuers. 97.9 per cent of the reports had a favourable auditor's opinion. In the last 12 financial years, all the audit reports on the Ibex 35 companies presented a favourable opinion.

In 2019, there were no issuers with qualifications for non-compliance with accounting standards - there was just one issuer in 2018. The number of issuers (3) whose audit reports have limitations on their scope remained the same.

Audit reports for 30 issuers included some form of **emphasis of matter paragraph** (18 issuers in 2018), of which the 11 issuers incorporating business continuity concerns (12 issuers in 2018) and the 17 entities with uncertainties arising from the impact of COVID-19 stand out.

Supervision

The report explains the review work carried out by the CNMV on the annual accounts of listed companies. All documents received are subject to a formal review of compliance with current regulatory requirements. Additionally, a substantive review is performed on a certain number of audited annual accounts. During 2019, requests were addressed to five entities for formal issues, and to 33 entities for one or more of the following reasons:

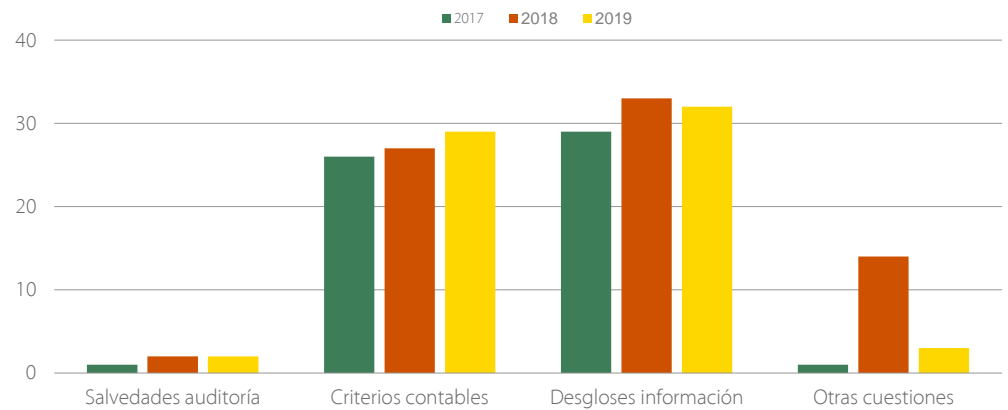
- provision of additional information on issues related to recognition and valuation accounting policies (29 companies);
- a more detailed breakdown of the information provided in the annual financial report (32 companies).

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Reasons for issuing requests to issuers (excluding FT and FAB)¹



Source: CNMV

¹ The requests include those sent to issuers subject to formal and substantive review, without taking into account those related to the NFS.

Also, various recommendations for consideration in future annual accounts were made to 27 of the 33 entities to which requests were issued.

Supervision of non-financial information

In relation to the number of non-financial statements (NFS) received for 2019, it should be noted that 45 issuers were required to include an NFS in their individual management report and 97 in their consolidated management report (31% and 73% of the total, respectively), the number being similar to that of last year.

Spanish Law 11/2018 stipulates that the information included in the NFS be verified by an independent verification service provider. It should be noted that two issuers (13 in 2018) presented qualifications in the verification report, due to omissions of information or lack of documentary evidence that could be material for a series of indicators established by the international standard GRI (Global Reporting Initiative).

All NFS received are subject to a formal review including compliance with submission requirements, the content of the verifier's report and other specific aspects of the content of the NFS. In addition, a substantive review is conducted on a selected number of NFS

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received, focusing on the priorities defined by ESMA for 2019 and the material aspects of each entity.

As a result of the review, in 2019, requests were issued to two entities for qualifications included in their verification report and two other companies were required to provide additional information on the following matters: the framework for preparing the NFS; the methodology used for the calculation of the pay gap; the risks and opportunities related to climate change in the business model; the key performance indicators employed; and the scope of the NFS.

Furthermore, recommendations were sent to 23 entities for consideration in the preparation of future NFS.