# Market newsletter 2/2020

18.11.2020 Public



## Content



The Market Newsletter addresses topical matters concerning interpretations and regulation as well as supervisory findings relating to listed companies' disclosure obligation, financial reporting enforcement, securities trading and insider issues. The newsletter is published by the Financial Supervisory Authority's Capital Markets Supervision.

## Events on listed companies' financial reporting and responsibility reporting

The Financial Supervisory Authority (FIN-FSA) will arrange two different events on listed companies' reporting in the last week of November.

An information event on listed companies' financial reporting will be organised on the **morning of Tuesday, 24 November 2020 from 8.30 am to approx. 12 noon**. The event will address current issues related to IFRS standards and other aspects of the disclosure obligation. The event will be held as a webinar in which there will be opportunities to ask questions and make comments (live and chat).

In addition, an event on companies' responsibility reporting will be held on the **afternoon of Friday, 27 November 2020 from 1.30 pm to 3.30 pm**. At the event, Chair of the IFRS Foundation Trustees Erkki Liikanen will discuss aspects of the development of global regulations for responsibility reporting, circulated for consultation by the Foundation. Mikael Niskala, a member of the EFRAG Working Group, will present an interim report on the EU's responsibility reporting regulations. In addition, Nina Männynmäki and Sirpa Joutsjoki will present at the event the work of the FIN-FSA and ESMA. The event will be hosted by Virpi Haaramo. The event will be held as a webinar, which will include an interactive discussion segment with Erkki Liikanen.

One joint invitation for both events will be sent in late October to the CFOs of listed companies as well as stakeholder representatives. Those interested in the topics are asked to contact their CFOs to obtain registration links for the events. Due to practical constraints, it is not possible for the FIN-FSA to send the invitations in a more targeted manner.

# Placing misleading orders is punishable

The Helsinki District Court has recently passed final judgment on a private individual for market manipulation of the layering/spoofing type. The trader was sentenced to a suspended seven months' imprisonment and forfeiture to the state of the financial benefit of the crime. The FIN-FSA emphasises that the Market Abuse Regulation's prohibition on market manipulation applies to all entities operating in the securities market, irrespective of whether an entity operating professionally or a private individual engaged in investment activity is involved.

## What is meant by market manipulation?

Market manipulation is defined in Article 12 of the Market Abuse Regulation (EU No 596/2014, MAR). According to the Regulation, market manipulation means, among other things, placing an order which gives false or misleading signals as to the supply of, demand for, or price of a financial instrument. All trading practices whose intention is an attempt to manipulate trading are prohibited and may be subject to criminal liability.

## Orders must not be misleading

All orders must have a financial purpose, which means that they must be based on a genuine buying or selling interest. Misleading orders, on the other hand, refer to the placing of orders which are not intended to be executed but are intended to mislead other market participants.

## Example of punishable manipulation

There follows an account of a situation involving market manipulation (layering/spoofing).[1]

A trader who has real interest in selling shares also first places misleading purchase orders close to the highest price levels on the buy side. The purpose of this is to create an impression for other market participants that the shares are subject to buying pressure. When the share price rises as a result of this, a sell order placed by the same trader is executed. The trader then cancels the previously placed misleading purchase orders, which the trader never had any intention of executing. The trader's actions contributed to a rise in the share price and the trader benefited by selling the shares at a higher price than the initial level. A similar manipulative procedure can correspondingly be implemented on the sales side to buy shares at a lower price. Such trading is prohibited.

## FIN-FSA monitors and investigates

Investment service providers that receive and execute client orders have an obligation to monitor their clients' trading and to report suspicious transactions and orders to the FIN-FSA. All marketplaces, such as the Helsinki Stock Exchange, also monitor trading and notify the FIN-FSA about suspected cases of abuse. The FIN-FSA receives approximately 150–200 of these notifications each year. Market manipulation notifications account for just under a third of all notifications. Most notifications concern suspected abuse of inside information. The FIN-FSA investigates all of the notifications it receives. An investigation may also be launched on the basis of suspected abuse detected by the FIN-FSA's own trading monitoring system or other information received.

The investigation may result in the FIN-FSA filing a report of an offence with the police. Market manipulation is punishable under the Penal Code. Attempted market manipulation is also punishable.

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*1 A comprehensive description of various manipulative trading practices can be found in Annex II to Commission Delegated Regulation (EU) 2016/522.*

The punishment may be a fine or up to two years' imprisonment or, in the case of gross market manipulation, up to four years' imprisonment.

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## Requirement to apply listed companies' electronic financial reporting (ESEF) may be postponed

### Option to postpone is part of EU relief measures following the COVID-19 pandemic

At EU level, a Member State option is planned for the Transparency Directive that would allow Member States to postpone the application of the ESEF requirement (listed companies' electronic financial reporting, European Single Electronic Format) for one year, so that its application would not be mandatory until the annual financial report for 2021. The application of ESEF according to the original timetable would also be possible.

The postponement would be part of the legislative package to alleviate the negative effects of the COVID-19 pandemic (Capital Markets Recovery Package) and an amendment to the Prospect Regulation included within it. The amendment to the Transparency Directive may not be finalised before the end of this year. The Ministry of Finance and the FIN-FSA are closely following the development of EU discussions and, if necessary, are ready to start preparing for the introduction of the Member State option in Finland.

Should the postponement materialise, companies could take advantage of the additional time it brings to develop their reporting processes. The FIN-FSA recommends that companies continue ESEF projects already been initiated, as ESEF reporting may after a year include, for example, new assurance obligations that require preparation. In addition, it should be noted that the option to postpone at the level of EU legislation is not yet certain. Should the postponement materialise, companies could choose to publish their annual financial reports in ESEF format also according to the original timetable, allowing investors and other stakeholders to test the use of the new reporting format in good time.

The introduction of the Member State option and the additional period of one year would provide Member States with the opportunity to clarify nationally certain evolving issues, such as the assurance of ESEF financial statements and the possible status of ESEF financial statements as official financial statements of the company.

Further information on the issues will be provided during the autumn.

### European Commission ESEF guidance in preparation

The European Commission is preparing guidance on practical aspects of annual financial reports in ESEF format. According to preliminary information received by the FIN-FSA, the Commission's guidance will cover, among other things, ESEF assurance, electronic signatures, the use of PDF versions alongside xHTML and zip files, and the suitability of ESEF files for trade register reporting. The Commission's guidance is expected in the coming weeks.

### ESEF webinar video recording and presentation material available

On 24 September 2020, XBRL Finland and the FIN-FSA organised a webinar on listed companies’ future electronic financial reporting. The webinar attracted an audience of nearly 300. Visit XBRL Finland's online service (in Finnish) for presentation material and a video of the interesting speeches as well as an informative panel discussion, involving five listed companies, on the practical implementation of ESEF. ESEF-related material can be found on the FIN-FSA's online service.

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## Commission’s Recovery Prospectus proposal and changes to prospectus regulations

### Two amending regulations entered into force in September

On 14 September 2020, two amending regulations, changing the Commission’s delegated regulations under the Prospectus Regulation, were published in the Official Journal of the European Union. The changes entered into force immediately.

Commission Delegated Regulation (EU) 2020/1272 amends and corrects Commission Delegated Regulation (EU) 2019/979 with regard to provisions on supplements to a prospectus and the presentation of key financial information in the summary of a prospectus. A consolidated version of the regulations is also available.

Commission Delegated Regulation (EU) 2020/1273 amends and corrects the minimum requirements for a prospectus contained in Commission Delegated Regulation (EU) 2019/980 and its annexes. The changes concern, among other things, EU growth market prospectuses prepared for equity securities that in the future must include a statement on the sufficiency of working capital, irrespective of the company’s market value. In addition, it is specified that if the prospectus requirements necessitate additional information contained in the auditor’s report to be reproduced in the prospectus, the information must be reproduced regardless of the regulations according to which the audit work has been performed.

### Commission proposes temporary regulation of a Recovery Prospectus

Due to the COVID-19 pandemic, the European Commission has prepared regulatory changes to facilitate the recovery of capital markets (Capital Markets Recovery Package). As part of the regulatory package, the Commission has proposed to the European Parliament and the Council temporary amendments to the Prospectus Regulation (EU) 2017/1129.

The Commission proposes, among other things, to provide for a so-called Recovery Prospectus. The Recovery Prospectus could be used to raise equity financing by companies whose shares are already admitted to trading on a regulated market or an SME growth market for at least 18 months. According to the proposal, the content requirements of the Recovery Prospectus would be concise, its maximum length would be limited to 30 pages and the inspection period would be five banking days.

Commission Proposal COM(2020) 281 was published on 24 July 2020.

The Council's position on the Commission's proposals was published on 21 October 2020. The Council has expanded the minimum information to be included in the Recovery Prospectus compared to the Commission's proposal and has also introduced a cap on its use to avoid highly dilutive issuances, while ensuring that it may be used as a basis for meaningful capital increases.

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## Market Abuse Regulation (MAR) changes from 1 January 2021

The Regulation (EU 2019/2115) of the European Parliament and of the Council on promoting the use of SME growth markets amended certain provisions of the Market Abuse Regulation (MAR). The aim of the changes is, among other things, to reduce compliance costs and administrative burdens faced by SMEs. Some of the changes also apply to companies listed on a regulated market. The changes will enter into force on 1 January 2021.

SME growth market refers to a multilateral trading facility registered as a growth market for SMEs in accordance with chapter 6 of the Act on Trading in Financial Instruments (1070/2017). The share trading part of Nasdaq Helsinki Oy's multilateral trading facility (MTF trading venue) is registered as an SME growth market. The Nasdaq First North Growth Market started operating on 1 September 2019.

### Exception related to market sounding

To Article 11 of MAR is added a new paragraph 1a, which clarifies the scope of application of market sounding. According to the provision, communication of information to qualified investors for the purposes of negotiating terms and conditions related to issuance of bonds shall not constitute a market sounding. Qualified investor is defined in Article 2(e) of Regulation (EU) 2017/1129 of the European Parliament and of the Council. Disclosure of inside information to qualified investors for the purpose of such transactions should be deemed to be made in the normal exercise of a person's employment, profession or duties, provided that an adequate non-disclosure agreement is in place.

The application of the exception is conditional on the financial instruments (equity or debt) of the issuer planning to issue a bond being previously admitted to trading on a trading venue. In addition, the issuer or any person acting on their behalf or on their account shall ensure that the qualified investors receiving the information are aware of, and acknowledge in writing, the legal and regulatory duties related to the receipt of inside information. This may take place in connection with the non-disclosure agreement. The change applies to issuers listed on both regulated markets and MTFs.

### Justifications for delaying disclosure of inside information

A new subparagraph is added to Article 17(4) of MAR according to which an issuer whose financial instruments are admitted to trading only on an SME growth market shall provide a written explanation to the competent authority on the fulfilment of the conditions for delaying disclosure of inside information only on the request of the authority. With regard to providing an explanation, the change has no particular significance in Finland, as Finland has previously provided for nationally, as permitted by the Regulation, that issuers shall provide an explanation on the fulfilment of the conditions for delaying disclosure of inside information only on the specific request of the FIN-FSA.[2] As before, however, the

[2] *Securities Market Act 6:2.*

FIN-FSA shall be notified that the issuer has delayed disclosure of inside information immediately after the disclosure of the information.

Under the new provision added to Article 17(4) of MAR, as long as the issuer is able to justify its decision to delay, the issuer shall not be required to keep a record of that explanation. In practice, SME growth market issuers are exempted from the obligation to document in writing that the conditions for delay have been fulfilled and that they remain in force. The issuer must, however, be able to provide justifications with regard to conditions for delay later, if necessary. The FIN-FSA draws attention to the fact that it may be challenging later to remember the various stages of the delay in disclosure, particularly in cases of protracted delays. Issuers should therefore assess in advance the need for up-to-date documentation of the conditions for delay.

## Clarifications on maintaining insider lists

An amendment to Article 18(6) of MAR contains provisions on the insider list of issuers listed on an SME growth market. Under the provision, it is possible for an issuer listed on an SME growth market to maintain only a list of so-called permanent insiders if the Member State does not exercise the Member State option under Article 18(6) of MAR.

In Finland, the Member State option has been introduced by an amendment to chapter 12, section 2 of the Securities Market Act that will enter into force on 1 January 2021. The provision requires the issuer of a financial instrument admitted to trading on an SME growth market to maintain a list of its insider projects as referred to in Article 18(1) of MAR (project-specific insider list). This is in line with current practice, as issuers listed on the Nasdaq First North SME Growth Market have been required by stock exchange rules to maintain project-specific insider lists.

Under the Regulation, the format of insider lists maintained by issuers listed on an SME growth market must be proportionate and involve a lower administrative burden than the format of insider lists of companies listed on a regulated market. The exact format of the insider lists will be laid down in a Commission delegated regulation to be published in due course.

With regard to the obligation under Article 18 of MAR to draw up and maintain insider lists, the division between issuers and parties acting on their behalf or on their account has been open to interpretation and differing interpretations in Member States. Article 18 of MAR has therefore been amended in several respects so that it is clearer from the provision that the obligation to draw up and maintain insider lists applies both to issuers and to parties acting on their behalf or on their account. The aim of the amendments is also to clarify responsibilities related to maintaining insider lists between the issuer and parties acting on their behalf or on their account.

Under Article 18(1) of MAR, issuers and any person acting on their behalf or on their account, shall each

a) draw up a list of all persons who have access to inside information and who are working for them under a contract of employment, or otherwise performing tasks through which they have access to inside information, such as advisers, accountants or credit rating agencies (insider list)
b) promptly update the insider list in accordance with paragraph 4; and
c) provide the insider list to the competent authority as soon as possible upon its request.

The obligation under Article 18(2) of MAR, to take all reasonable steps to ensure that all persons on the insider list acknowledge in writing the legal and regulatory duties that this entails and are aware of the sanctions applicable to insider dealing and unlawful disclosure of inside information, is applicable, after the amendment to the Regulation, to both issuers and parties acting on their behalf or on their account.

The amendments to Article 18 of the MAR described above apply to all issuers listed on a regulated market and an MTF and to parties acting on their behalf or on their account.

### Additional time for disclosure of managers' transactions

Under Article 19(3) of MAR, issuers are required to disclose transactions conducted by persons discharging managerial responsibilities (PDMRs) as well as persons closely associated with them (PCAs) no later than three business days after the transaction. The same deadline also applies to the obligation of PDMRs and PCAs to report their transactions to the issuer. Disclosure of transactions within the same deadline as notification of them has proved challenging, particularly in situations where a PDMR or PCA reports transactions at a late stage within the three-day deadline.

For the above-mentioned reasons, Article 19(3) of MAR is amended so that the issuer must disclose transactions within two business days of receiving notification from a PDMR or PCA. The change applies to issuers listed on both regulated markets and MTFs.

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## FIN-FSA will soon introduce a test environment for electronic services – enabling testing of managers' transaction notifications

The FIN-FSA stated in Market newsletter 4/2019 that reporting of managers' transactions to the FIN-FSA will change in the near future through the launch of the FIN-FSA's electronic services. Then an electronic form corresponding to the present pdf format will be completed and sent to the FIN-FSA direct via a browser. The form sent by email will be discontinued after a transition period.

It will soon be possible to test the FIN-FSA's e-services in a production test environment intended for that purpose, which users can log in to via the Suomi.fi service or a using FIN-FSA identifying credentials. In the test environment, users can continuously test existing services as well as new services introduced for testing. Data will remain in the test database and will not be treated as actual transactions. Initially, the services already in production, i.e. customer complaint notifications and tied agent notifications, will be available in the test environment. As a new service, managers' transaction notifications will also be brought in for testing. The actual e-services introduction with regard to such notifications will take place after test feedback is received.

The FIN-FSA requests issuers and their managers as well as other market participants to test, in particular, the managers' transaction notification service and to provide feedback on the user experience. Feedback on the operation of the test service and related observations can be sent to the FIN-FSA at the address fiva-asiointi(at)fiva.fi. If shortcomings are observed in the service based on testing, it will be possible to correct them before the actual introduction of the service. For this reason, receiving feedback is of prime importance to the FIN-FSA.

The biggest difference between the e-services channel and the current notification practice is that senders will be required to be authenticated via the Suomi.fi service, instructions for which can be found in the FIN-FSA's online service (in Finnish). It will also still be possible, however, to make a managers' transaction notification on behalf of another person without a separate authorisation through the service. The actual managers' transaction notification form will work in the same way as the pdf form currently in use. An XML file can also be sent via the new service.

The FIN-FSA will provide more information on the opening of the test service and its details separately in due course.

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## Accounting treatment and disclosure of centrally cleared derivatives

The weaknesses related to over-the-counter (OTC) derivatives identified during the financial crisis led to the adoption of the European Market Infrastructure Regulation (EMIR, Regulation EU No 648/2012)[3] laying down clearing and reporting requirements for OTC derivatives. The weaknesses were due to ambiguities in the number of derivatives and their fair values, leading to lack of transparency in the market. The Regulation requires, among other things, certain actors in the derivatives market to clear derivative contracts centrally, i.e. through a central clearing counterparty (CCP), when the conditions and thresholds set out in the Regulation are met. Derivative contracts can also be cleared centrally on a voluntary basis. Central clearing of derivatives has also led to the emergence of new practices.

The FIN-FSA's IFRS Enforcement observed inconsistent accounting practices for centrally cleared derivatives in Finland as well as uncertainty about the applicability of accounting requirements such as the IFRSs for the treatment of the daily variation margin (VM)[4], paid on the basis of changes in the fair value of derivatives. The nature of variation margin is specified in more detail in the CCPs' rules and agreements. Variation margin is defined in contracts between the parties as cash collateral paid for a derivative or as part of the cash flows of the derivative contract itself.

Due to its observations, the IFRS Enforcement examined European practices and discussed with European enforcers and parties responsible for national regulation. This article discusses issues relating to derivative contracts and variation margins observed by IFRS Enforcement, which should be taken into account in the accounting and disclosure of centrally cleared derivatives. Since ESMA[5] has not formally adopted a position on the matter, the article contains IFRS Enforcement's recommendation on the disclosure of derivatives in financial statements in order to promote consistent application and transparency.

### Accounting for variation margin

CCPs have rules and contractual structures that include a wide range of agreements and contractual terms. The rules and agreements include general terms, customer-specific terms, product-specific terms and conditions for specific situations (e.g. default). In addition, the rules and contractual structures agree, for example, on the procedures for derivatives trading, treatment of collateral and the rights and obligations related to derivative contracts. The rules of the CCP and the contracts concluded by an entity must be considered as a whole when looking at the entity's accounting for variation margin. Traditionally, variation margin has been treated as cash collateral, but according to the new accounting practice introduced after the financial crisis, variation margin can be defined by contracts as a settlement for changes in the fair value of derivatives. The accounting practice must be based on the legal rights and obligations under the contracts and is therefore not based on the entity's choice.

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*[3] Further information: https://www.finanssivalvonta.fi/en/regulation/regulatory-framework/emir/.*
*[4] IFRS Enforcement found that the term has not become standardised as regards its substance and that other terms are also used.*
*[5] The European Securities and Markets Authority.*

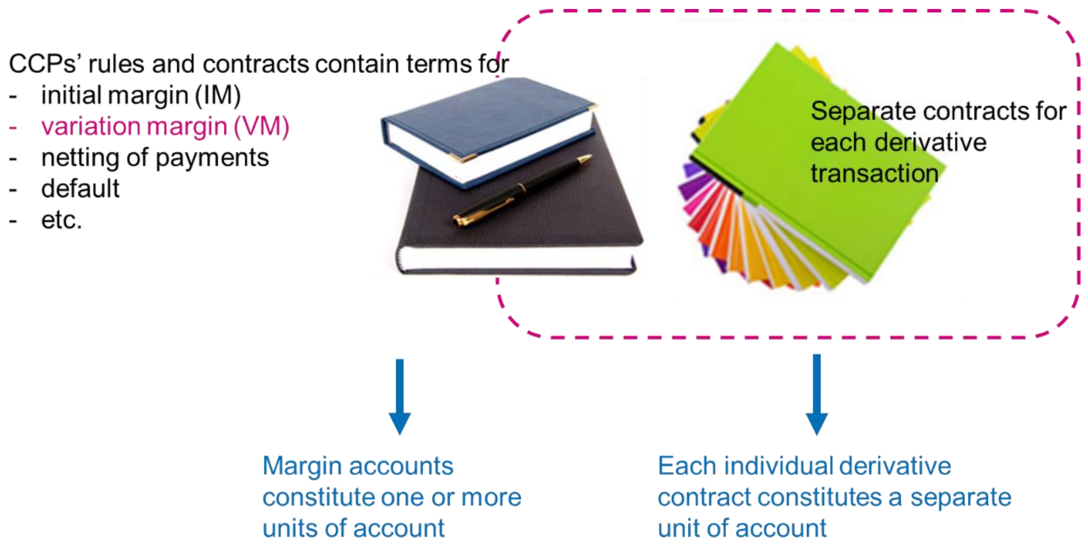
IFRS Enforcement has found uncertainty as to when variation margin should be accounted for as collateral and when as part of the derivative contract's final cash flows. In both cases, the payment is made between the parties on a daily basis and the amount of the payment is, as a rule, the same, as it is determined on the basis of changes in the derivative's fair value. The accounting treatment of variation margin has a significant impact on the measurement of the derivative contract's book value and, possibly, on the entity's financial statements, depending on the amount of derivative contracts.

## Variation margin under the traditional accounting practice

Under the traditional practice, daily variation margin paid on the basis of fair value changes is treated as cash collateral for derivatives. Internationally, this practice is often referred to as the 'Collateralized-to-Market' approach (and such derivatives as 'CTM derivatives'). IFRS accounting treatment for CTM derivatives observes the following key accounting principles:

- The parties to a derivative transaction measure a fair value for the derivative contract in accordance with IFRS 13 *Fair Value Measurement*.
- The contracting party for which the change in the fair value is negative, pays to the other party a variation margin as collateral for an open derivative position. In the rules and contracts with the CCP, variation margin is defined as collateral, and is recognised as collateral receivable in accordance with IFRS 9 *Financial instruments* (examples IFRS 9 IG B.10 and IG D.1.1). Typically, collateral involves the right to reclaim the collateral.
- In financial statements, a CTM derivative is recognised in the balance sheet as a derivative asset or derivative liability, depending on the fair value of the open derivative contract to the contracting party. The derivative's unrealised fair value change is recognised in profit or loss.
- Based on the rules and contracts that bind the entity, variation margin is accounted for as collateral, an instrument separate from the derivative contract, i.e. as a separate unit of account (IFRS 9.3.1.1).
- The requirements of paragraph 42 of IAS 32 *Financial Instruments: Presentation* concerning the offsetting of a financial asset and a financial liability may be applicable to these derivative contracts and collateral recognised in the balance sheet.

Figure 1. Under the legal rights and obligations, variation margin on CTM derivatives is treated as collateral

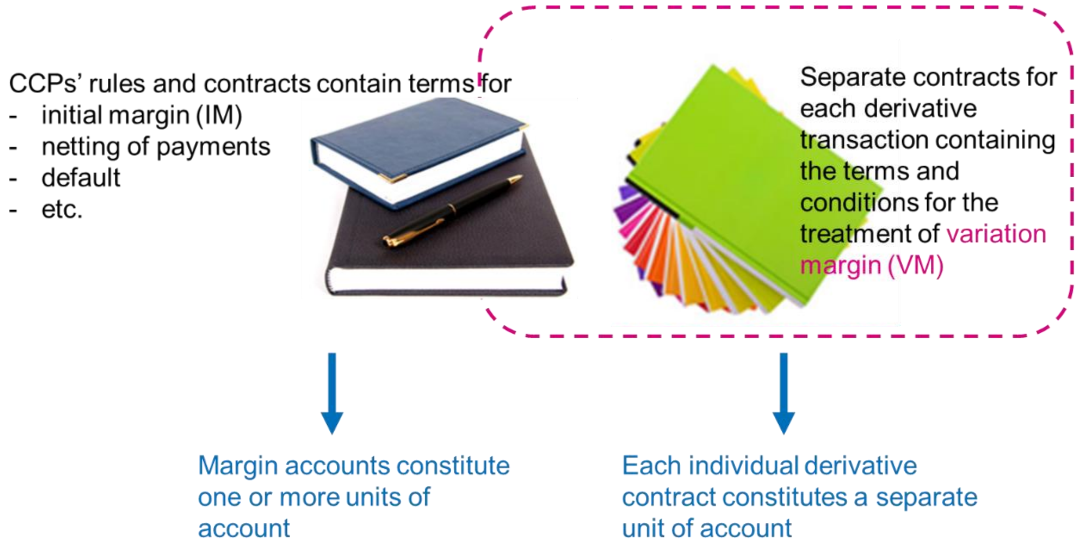


## Variation margin under the new accounting practice

Under the new practice, daily variation margin is treated as part of the cash flows of a derivative contract. Internationally, this practice is often referred to as the ‘Settled-to-Market’ approach (and such derivatives as ‘STM derivatives’). IFRS accounting treatment for STM derivatives observes the following key accounting principles

- The parties to a derivative transaction measure a fair value for the derivative contract, in accordance with IFRS 13.
- The contracting party for which the change in the fair value of the derivative is negative, settles the fair value change in the form of a variation margin. In the CCP’s rules and contracts, the variation margin is defined as final and as a part of the cash flows in a derivative contract, and therefore the payer does not have the right to demand reimbursement.
- Variation margin is recognised in profit or loss as a realised fair value change. In this case, there will be no unrealised change in fair value for the derivative contract that would be recognised in the balance sheet as derivative assets or derivative liabilities (except for any valuation difference between the parties or any receivable or payable arising from the timing of the daily variation margin).
- Based on the rules and contracts concluded by the entity, the variation margin is defined as a part of the unit of account for each derivative contract, and the book value of the derivative contract is determined so that it takes into account the cash flows related to variation margin. As the change in the fair value of a derivative contract is settled daily, the derivative is booked at very close to zero value. The margin account is, for example, for the provision of the initial margin (IM).
- IAS 32.42 is not applicable to STM derivatives, as the balance sheet does not include financial assets or financial liabilities that can be offset.

Figure 2. Under the legal rights and obligations, variation margin on STM derivatives is treated as final settlement of the fair value change of the derivative



## Key factors affecting the accounting treatment

### Rights and obligations under the contracts

Prior to any derivative transactions, the parties are required to conclude the necessary contracts. The terms of these contracts, together with the rules of the CCP, define the cash flows related to derivative contracts and the related rights and obligations. The contracts determine whether a derivative is treated as a CTM derivative or a STM derivative. An entity cannot choose the accounting treatment; the accounting treatment shall describe the entity's contractual rights and obligations for the financial instruments, in accordance with IFRS 9 (IFRS 9.3.1-3.3).

### Unit of account

For the purpose of initial recognition, a unit of account must be determined for the derivative, at the level of which recognition and measurement requirements are applied (*Conceptual Framework* 4.48-4.62, IFRS 13 Appendix A, IFRS 13.9-10). Usually, each financial instrument contract, including a derivative contract, constitutes a separate unit of account (IFRS 9.3.1.1, IFRS 9.BC5.138). The entity shall recognise separately for each derivative contract the related cash flows, rights and obligations and measures the fair value of the contract. IFRS permits some exceptions, for example credit adjustments to a group of financial assets and financial liabilities (IFRS 13.48-56). In the case of derivative contracts subject to central counterparty clearing, the entity must determine, based on the contracts, the unit of account of the variation margin.

### Netting of payments between the parties to the contract

IFRS Enforcement draws the entities' attention to the fact that the netting of payments related to derivative transactions, for the purpose of simplifying cash flows, does not eliminate the requirement to recognise all the contractual payments related to derivatives with book entries that describe the nature of these payments. In practice, this means that the net payment between the parties must be broken down into the components received and paid per unit of account, for example options premia, interest income, interest expense and cash collateral payment (CTM derivatives) or settlement of fair value change (STM derivatives).

## Disclosure of derivatives in financial statements

When reviewing financial statements, IFRS Enforcement observed that it is not always possible for the users of financial statements to obtain information on the STM derivative contracts the entity has entered into. The disclosure of derivatives in the notes as one item that includes both CTM derivatives and STM derivatives seems to weaken the transparency of CTM derivatives and STM derivatives in entities in which the contractual structures enable both accounting practices.

IFRS Enforcement considers that the rights and obligations of CTM and STM derivatives as well as the accounting treatment, including the balance sheet effect, differ so significantly that the disclosures of these derivatives should, as a rule, be presented as separate items, for example in the tables of the notes as separate rows or columns.

IFRS Enforcement considers that relevant information on STM derivatives includes, for example,

- which types of derivative contracts are treated as STM derivatives
- principles for measuring fair value
- nominal value of outstanding STM derivative contracts

- the cumulative amount of the daily variation margins that have been settled for the outstanding STM derivatives.

IFRS Enforcement draws attention to the following requirements of IFRS 7 *Financial Instruments: Disclosures* that the entities shall comply with.

**Summary of requirements for the presentation of financial instruments in accordance with IFRS 7 *Financial Instruments: Disclosures***

According to **IFRS 7.1**, the objective of IFRS 7 is to require entities to provide disclosures that enable users to evaluate the significance of financial instruments for the entity's financial position and performance; and the nature and extent of risks arising from financial instruments and how the entity manages those risks.

**IFRS 7.6-7.7** requires an entity to group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance.

**IFRS 7.21** requires disclosure of the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements.

**IFRS 7.31-34** requires that an entity disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period. The entity shall disclose how these risks have been managed. The entity shall provide quantitative and qualitative disclosures that enable users of its financial statements to form an overall picture of the nature and extent of risks arising from financial instruments.

**IFRS 7** and **IFRS 13** include also other requirements applied to the disclosure of derivatives.

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## Topical matters at ESMA

In September 2020, ESMA published the report Trends, Risks and Vulnerabilities, describing securities market risks.

Also in September 2020, ESMA submitted to the European Commission the MAR Review Report on the effectiveness of the Market Abuses Regulation. The Commission will report on the matter to the European Parliament and the Council in due course.

At the request of the European Commission, ESMA is analysing the functioning of the German financial reporting system in the Wirecard case.

A summary of supervisory measures due to the COVID-19 pandemic has been published on ESMA's website.