ESMA 2026 priorities: a guide for boards, audit committees and preparers



Overview

The message behind the priorities

On 13 October 2026, the European Securities and Markets Authority (ESMA) published its European Common Enforcement Priorities for 2026 annual reports. For IFRS financial statements, it keeps geopolitical risks and uncertainties as Priority 1 and replaces segment reporting with restructuring provisions and debt restructuring as Priority 2. The MFSA drew issuers' attention to the statement in a circular dated 19 October 2026.

What changed from 2025?

2025 IFRS focus	2026 IFRS focus
Geopolitical uncertainty	Retained as Priority 1.
Segment reporting	Replaced as a specific priority by restructuring provisions and debt restructuring.
Prior-year messages	ESMA highlights the messages included in the 2025 ECEP statement.

Our perspective

The 2026 priorities highlight a recurring reporting challenge: business decisions and accounting conclusions can become separated until too late. A restructuring announced in December, a covenant waiver obtained in January or a refinancing still under negotiation may produce materially different year-end outcomes. Finance, treasury and the board may wish to consider the reporting implications as decisions are made.

Preparers may start with the preparer checklist (section A depends on facts established before 31 December) and audit committees with the questions for management and the auditor. The checklists are a guide only and are not exhaustive; their relevance depends on each issuer's circumstances and materiality. ESMA's IFRS 18 reminder is a general consideration for 2026 annual financial reports, not one of the 2026 IFRS enforcement priorities.

Priority 1 · Geopolitical risks and uncertainties

From broad uncertainty to specific financial effects

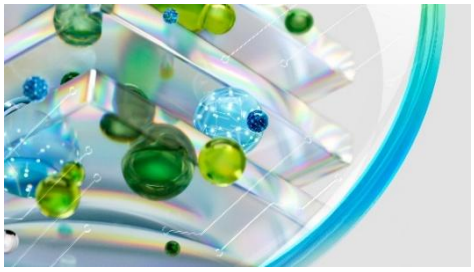
Geopolitical events can change cash flows, valuation assumptions, financing conditions and counterparty risk. ESMA's focus is on transparent, entity-specific accounting and disclosures rather than generic descriptions of uncertainty.

Liquidity, financing and covenants

Contractual maturities. Present a complete and clear maturity analysis for financial liabilities, including lease liabilities and trade payables, based on undiscounted contractual cash flows, including principal and interest payments. Use appropriate time bands; where significant repayments are concentrated in a particular period, assess whether narrower maturity intervals, including intervals shorter than one year, are needed. Where relevant, disclose a maturity analysis for financial assets held for managing liquidity risk.

Funding. Explain significant changes in liquidity-risk exposures from the previous period. Distinguish clearly between financing that is committed and financing that remains subject to conditions, negotiations, approvals or other uncertainties. Where an issuer faces significant liquidity pressures or financial difficulties, ESMA expects more granular disclosures on liquidity risk, liquidity-management measures and sources of funding.

Restricted cash. Assess whether cash and cash equivalents are available for use by the consolidated group. Restrictions may arise, for example, where balances are held in jurisdictions subject to exchange controls or other legal, regulatory or contractual restrictions. Where material, disclose the judgement applied and the nature, amount and location of the restricted cash balances.



Covenants. For liabilities classified as non-current at the reporting date, disclose information that enables users to understand the risk that they could become repayable within twelve months after the reporting period. In determining the level of detail, consider the issuer's specific circumstances, including the risk of covenant breaches. In particular, consider disclosing the ratios or performance measures, applicable thresholds, the frequency of testing and the outcome of covenant assessments during the reporting period. Where there are difficulties complying with covenants, disclose whether waivers were obtained during the reporting period or after the reporting date. Waivers obtained after the reporting period, but before the financial statements are authorised for issue, do not affect the classification of liabilities as current or non-current at the reporting date.

A practical illustration · the same waiver, a different outcome

Agreed before 31 December

The company expects to fail its 31 December covenant test. Before year-end, the lender grants a qualifying grace period ending at least twelve months after 31 December, during which it cannot demand immediate repayment and the company can rectify the breach. Subject to the other classification conditions, the loan may remain non-current.

Agreed after 31 December

The test is failed at 31 December and the waiver is signed in January. Because the lender could demand repayment at year-end, the loan would ordinarily be classified as current. The breach and waiver should be disclosed, and disclosure of the subsequent event may be required where material.

The illustration assumes the breach removes the right to defer settlement for at least twelve months at the reporting date. The precise covenant terms and any qualifying pre-year-end grace period would need to be assessed.

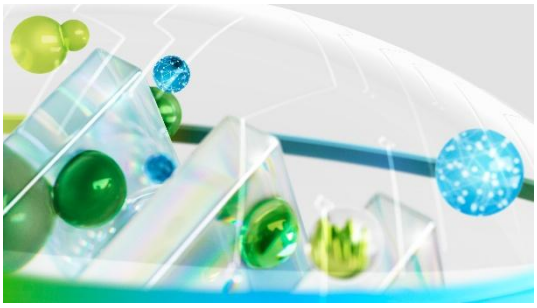
Fair value and impairment

Valuation techniques should maximise relevant observable inputs and minimise unobservable ones, and unobservable inputs should reflect the assumptions market participants would use. Where a discount rate adjustment technique is applied, the rate should reflect assumptions consistent with the risks inherent in the cash flows; where significant measurement uncertainty exists, appropriate risk adjustments may be necessary. Reduced trading activity should not automatically result in a conclusion that a quoted price is not fair value or that a transaction is not orderly; further analysis is required.

For Level 3 fair value measurements, provide the required disclosures, including quantitative information on significant unobservable inputs, the unrealised gains or losses on Level 3 items held at the reporting date that are included in profit or loss, and sensitivity information. For financial assets and liabilities, where reasonably possible alternative assumptions could result in materially different valuations, sensitivity information should include the quantitative effect of changes in assumptions. Where relevant, explain how current economic and geopolitical developments affected the valuation process for Level 3 measurements. Where fair value underlies impairment testing, the sensitivity disclosures required for impairment assumptions may also need to be considered.

Market exits and expected credit losses

A decision to exit a market does not of itself establish held-for-sale classification. Each held-for-sale criterion needs to be met, including that the sale is highly probable and expected within one year from the date of classification. The period may extend due to events or circumstances beyond the issuer's control, provided there is sufficient evidence that the issuer remains committed to the planned sale; where such evidence exists, the held-for-sale classification is maintained. Disclose the facts and circumstances surrounding the sale, including, where relevant, circumstances extending the sale beyond one year and the reasons for continuing the classification. Whether an asset or disposal group is also a discontinued operation calls for a separate assessment.



Banks are expected to reassess whether their existing models, assumptions and management overlays appropriately capture the effects of heightened uncertainty. Particular attention should be paid to sectoral, geographical and counterparty-specific exposures that may be disproportionately affected by these developments.

The reporting question

Can a reader trace the relevant uncertainty to the balance affected, the accounting judgement applied and the sensitivity of the outcome?

Priority 2 · Restructuring and debt modifications

When business decisions become accounting events

Restructurings and refinancing may be sensible commercial responses to a changing environment, but their accounting depends on IFRS recognition and derecognition criteria rather than on management intention alone.

Restructuring provisions: has a present obligation arisen?

A restructuring provision requires more than board approval: a constructive obligation arises only when an entity has developed a detailed formal plan that creates a valid expectation among those affected that the restructuring will be carried out, by starting to implement that plan or announcing its main features to those affected. Timing is therefore likely to decide whether a provision exists at year-end.

The provision should include only direct expenditure necessarily entailed by the restructuring and not associated with ongoing activities. ESMA also expects issuers to assess whether a restructuring affects other areas of accounting, such as impairment and held-for-sale classification. ESMA encourages disclosure of the main categories of expenditure recognised within the provision, and consistency between the management report and the financial statements.

Termination benefits for employees made redundant as part of a restructuring are recognised in accordance with the specific requirements of the employee benefits standard. Where restructuring programmes affect defined benefit arrangements, issuers should assess whether pension curtailments or settlements have occurred and account for the resulting effects.

Illustrative timing test

A restructuring plan approved on 20 December but first announced to those affected on 10 January is unlikely, by virtue of December approval alone, to establish a constructive obligation at 31 December. Whether implementation had already created a valid expectation at year-end would need to be assessed; if the restructuring arises afterwards, non-adjusting-event disclosure may be required where material.

Debt restructuring: does the existing liability survive?

Changes to contractual terms, including interest rates, maturity dates, repayment schedules, lenders, guarantees, collateral arrangements and covenants, require assessment under the financial instruments standard of whether derecognition is required. While that standard includes a quantitative 10 per cent test, ESMA expects issuers also to consider qualitative factors, as these may indicate that a modification is substantial, for example a change in the currency of denomination or the introduction of an embedded equity component.

Disclose the entity-specific accounting policy for assessing whether modifications of financial liabilities result in derecognition, the significant judgements applied during the reporting period and, where necessary, additional information about the modifications, including their quantitative effects on the financial statements.

Year-end timeline

Before 31 December — raise covenant risks with lenders, document restructuring communications, assess the accounting for any refinancing and evidence disposal processes; the accounting follows the facts at the reporting date.

During the close — finalise accounting papers, test assumptions against actual outcomes, draft entity-specific disclosures and consider events after the reporting date.

Before approval — bring key judgements, sensitivities and open items to the audit committee in time to act, and align the directors' report with the notes.

> ***Our perspective***
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> Treasury, legal, HR and finance may be better served by working in parallel, rather than sequentially, when closing major transactions. Early accounting input can help avoid year-end classification surprises and strengthen the evidence supporting management's conclusions.
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> High-quality reporting is less about describing uncertainty in more words than about showing how it has been reflected in the numbers.

Also in the 2026 accounts

IFRS 18 expected-impact disclosure

IFRS 18 is not a 2026 enforcement priority. It is included in Section 4 of ESMA's statement as a general consideration and reminder concerning upcoming reporting requirements. IFRS 18 becomes effective for annual reporting periods beginning on or after 1 January 2027, requires comparative information for the preceding period, and also applies to interim financial statements in the year of initial application.

For 2026 annual financial reports, ESMA expects entity-specific information on the expected impact of IFRS 18, under the existing requirement to disclose standards issued but not yet effective, which refers to the impact that is known or reasonably estimable. ESMA indicates that this may include:

- explanations of the quantitative changes to the presentation of the statement of profit or loss;
- assessments of specified main business activities;
- details of measures expected to meet the definition of a management-defined performance measure (MPM), including whether the issuer plans to discontinue or introduce measures in public communications;
- other significant judgements and key accounting policy decisions.

Where the effect cannot yet be reasonably estimated, we would expect the disclosure to explain what remains under assessment rather than rely solely on a generic statement. Issuers may also need to consider the effect on financial targets and other metrics used in business plans, and on ESEF reporting; the 2026 ESEF taxonomy already carries separate entry points for the current and the new presentation requirements.



> ***Our perspective***
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> The IFRS 18 note may be the one disclosure in the 2026 accounts that readers later test against the 2027 accounts. It is likely to be more useful if drafted from the implementation work actually done, with numbers where the restated 2026 profit or loss has been modelled, rather than from the standard's summary.

Checklist · Preparers

Checklist for preparers

Single actions, offered as a guide only; the list is not exhaustive and should be applied in light of materiality and the issuer's circumstances. Section A depends on facts established before 31 December.

A. Before 31 December

- ☐ Forecast each covenant on expected year-end figures and raise any expected breach with the lender before the reporting date.
- ☐ Document the date and content of restructuring communications, and assess the accounting consequences of any refinancing before its terms are finalised.
- ☐ For planned disposals, evidence the sale process: buyer search, marketing, price and timetable.
- ☐ Align the forecasts and assumptions used for impairment, deferred tax recoverability, expected credit losses and going concern, and explain justified differences.

B. Liquidity, covenants and restricted cash

- ☐ Prepare the undiscounted maturity table (principal and interest, leases and payables), reconciled to the ledger, with narrower time bands where large repayments fall in a single year.
- ☐ Explain significant changes in liquidity risk, and show committed facilities separately from funding still subject to conditions, negotiations, approvals or other uncertainties.
- ☐ Assess whether cash and cash equivalents are available to the consolidated group; where material, disclose the judgement applied and the nature, amount and location of restricted cash.
- ☐ For non-current liabilities with covenant-related repayment risk, consider disclosing the ratios or performance measures, thresholds, testing frequency and covenant assessment outcomes; disclose waivers obtained during or after the reporting period.
- ☐ Where a breach of a covenant required to be met on or before the reporting date removes the right to defer settlement for at least twelve months, classify the liability as current and disclose the breach and any waiver.

C. Valuations, disposals and credit risk

- ☐ Maximise observable inputs and document any departure; reflect each risk consistently in the valuation assumptions, with a risk adjustment where significant measurement uncertainty exists.

- ☐ Where trading volume has fallen, assess whether quoted prices remain orderly before departing from them.
- ☐ For Level 3 fair values, disclose significant unobservable inputs, unrealised gains or losses included in profit or loss, and sensitivity information; for financial assets and liabilities, quantify the effect of reasonably possible alternative assumptions where material; explain changes in the valuation process where relevant.
- ☐ Compare last year's impairment forecasts with actual results, and disclose key assumptions and sensitivities as required.
- ☐ Evidence every held-for-sale criterion at year-end; where a sale has run beyond one year, evidence continued commitment and disclose the reasons for keeping the classification; assess separately whether there is a discontinued operation.
- ☐ For banks, reassess models, assumptions and overlays for geopolitical effects and assess sectoral, geographical and counterparty-specific exposures.

D. Restructuring

- ☐ Establish the dates of plan approval, communication to those affected and start of implementation.
- ☐ Allocate each restructuring cost to the provision, employee benefits, impairment, inventories or leases, or exclude it; disclose the main categories of expenditure within the provision.
- ☐ Recognise termination benefits in accordance with the employee benefits standard; check for pension curtailments or settlements and for impairment of the assets affected.
- ☐ For a post-year-end restructuring, assess whether it is adjusting or non-adjusting; if non-adjusting and material, disclose its nature and estimated effect, and keep the management report consistent with the notes.

E. Debt restructuring

- ☐ Identify every change to an existing loan's contractual terms and assess derecognition, applying both the 10 per cent test and the qualitative factors ESMA highlights; disclose the accounting policy, significant judgements and, where necessary, the quantitative effects.

F. The annual report

- ☐ Ensure the directors' report is consistent with the notes on uncertainty, restructuring and financing, and replace generic references to uncertainty with the event, the balance and the effect.
- ☐ Re-check the 2025 topics (inventories, deferred tax assets, revenue recognition and segment reporting) where relevant.
- ☐ Give entity-specific IFRS 18 expected-impact disclosure, based on the issuer's implementation work and the requirements of IFRS 18.

Checklist · Audit committees

Checklist for audit committees

Questions to put to management and the external auditor before approving the 2026 accounts, offered as a guide only; the list is not exhaustive. Oversight tests management's conclusions; it does not take over responsibility for them.

A. Process

- ☐ Has management mapped each material exposure to the balance, judgement and note it affects, with consistent assumptions across impairment, deferred tax, credit losses and going concern?
- ☐ Were transactions close to year-end assessed for their accounting before they were concluded?

B. Liquidity and going concern

- ☐ How much cash is available for general group use, and how much is restricted?
- ☐ Does the funding plan rely on committed facilities or on financing still subject to conditions, negotiations, approvals or other uncertainties, and does the maturity table show when large repayments fall?
- ☐ Which covenants were tested at year-end and with what headroom; did any breach remove the right to defer settlement, and is the liability current despite a later waiver?

C. Valuations, disposals and credit risk

- ☐ Where is valuation headroom thinnest, which assumption change would remove it, and were last year's forecasts met?
- ☐ How did this year's events change the Level 3 valuation process, and does the note say so?
- ☐ Is there evidence of an active sale process for each asset held for sale, and where are the largest credit concentrations?

D. Restructuring and debt

- ☐ When was the restructuring plan announced or implemented, and did that create a valid expectation among those affected by year-end?
- ☐ Which costs were excluded from the provision, and why?
- ☐ Which loans changed terms, what did the derecognition assessment, including the 10 per cent test and qualitative factors, show, and what are the disclosure and financial-statement effects?

E. Disclosure and the audit

- ☐ Is the directors' report consistent with the notes, and can a reader identify which event affected which balance?

☐ Does the IFRS 18 note say what will change in 2027, with entity-specific information where the impact is known or reasonably estimable?

☐ Which judgements did the external auditor challenge, and which matters remain unresolved?

F. Matters warranting early attention

☐ Funding that depends on negotiations not yet concluded, and valuations or impairment tests with thin headroom.

☐ Restructuring obligations of uncertain timing or scope, and debt modifications close to the 10 per cent threshold or with new features.

> ***Our perspective***
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> In our experience, the strongest oversight often comes from challenging the weakest evidence supporting the most consequential judgement, rather than from reviewing the longest checklist. Particular attention may be warranted where liquidity is tight, valuation headroom is limited, or transactions occur close to year-end.

Sources

Principal references

1. ESMA, European Common Enforcement Priorities for 2026 Corporate Reporting (ESMA32-2064178921-9738), 13 October 2026, Sections 1 and 4.
2. ESMA, European Common Enforcement Priorities for 2025 Corporate Reporting (ESMA32-2064178921-9254), 14 October 2025, Section 1.
3. MFSA, ESMA European Common Enforcement Priorities for 2026 Annual Financial Reports and Publication of the 31st FRWG (EECS) Extract of Enforcement Decisions, circular, 19 October 2026.
4. Deloitte IAS Plus, ESMA announces 2026 European common enforcement priorities, 13 October 2026.
5. Deloitte, iGAAP in Focus: Closing Out – Areas of Focus for Financial and Sustainability Reporting, September 2026.
6. Deloitte, iGAAP in Focus: Preparing for the application of IFRS 18, June 2026.

Scope. This guide covers ESMA's IFRS financial-statement priorities, the related IFRS 18 reminder and consistency with related narrative reporting; it does not address ESMA's separate sustainability or ESEF priorities. The considerations and checklists are illustrative and non-exhaustive; their relevance depends on the issuer's circumstances and materiality. They are not a substitute for a comprehensive IFRS assessment or professional judgement.

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