BUSINESSEUROPE

Mr. S. Maijoor,
European Securities and Markets Authority,
103 Rue de Grenelle
75007 Paris
France

30 March 2012

Dear Sir,

Re: ESMA Consultation Paper – Considerations of materiality in financial reporting

I am writing in response to your invitation to comment on the ESMA Consultation Paper – Considerations of materiality in financial reporting (the Consultation Paper). BUSINESSEUROPE represents 20 million companies from 35 countries through its 41 member federations and is the main horizontal business organisation at EU level.

The principle of materiality

The concept of materiality is fundamental to the preparation of general-purpose financial statements and has consequently been explicitly incorporated in many bodies of Generally Accepted Accounting Principles/Practice (GAAP) throughout the world for a long time. In particular, both the IASB and the FASB describe this concept in the IFRS Framework for the Preparation and Presentation of Financial Statements (the IFRS Framework) and the FASB's Conceptual Framework, respectively.

The IFRS Framework makes it clear that materiality is an aspect of relevance, and that it is thus an entity-specific concept to be judged in the context of an entity's financial statements. It states that "Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. [1] ". It should be noted that such a principle encompasses both quantitative and qualitative characteristics of information, and is thus very powerful. Having stated this clear principle the IASB conspicuously did not specify any uniform quantitative threshold against which materiality should be judged. It defined the principle and left it to the entity to make judgements in the light of that principle. We think that the FASB has dealt with this issue along the same lines. We agree fully with the two standard-setters that materiality should be judged within the context of the specific relevant circumstances of the reporting entity and that what is necessary are clear principles and an explanation of how these have been applied. We are not in favour of individual jurisdictions, such as the European Union (EU), defining its own rules or detailed guidance, as we think this would not only distort the international comparability that the adoption of IFRS in the EU has sought to promote, but could also have the negative

[1] Extracted from Framework for the Preparation and Presentation of Financial Statements. © IASC Foundation.

AV. DE CORTENBERGH 168
BE-1000 BRUSSELS
BELGIUM
VAT BE 863 418 279

BUSINESSEUROPE a.i.s.b.l.

WWW.BUSINESSEUROPE.EU

TEL +32(0)2 237 65 11
FAX +32(0)2 231 14 45
E-MAIL: MAIN@BUSINESSEUROPE.EU
EU Transparency register 3978240953-79

effects of both encouraging the search for loopholes and discouraging the application of judgement about what information is really of most relevance to the user.

We believe that the application of the principle of materiality through the filter of judgement based on knowledge of the specific circumstances of an individual entity is sufficiently well understood by preparers, auditors and users of financial statements alike, and we are of the opinion that the principle is generally effectively and consistently applied, with the possible exception of the area of disclosure, which we discuss below. In our view no further guidance or clarification is required in addition to what already exists in IFRS.

BUSINESSEUROPE would therefore urge the ESMA not to issue any guidance concerning the application of the materiality concept within the EU. This would not, of course, preclude the ESMA or the national regulators from fulfilling their role as guardian of the public interest and challenging the judgements made about materiality by entities.

Disclosure about judgements made about materiality

IFRS (IAS 1 Presentation of Financial Statements) currently requires entities to disclose significant accounting policies and judgements it has made and those uncertainties which result in significant risk of material adjustment in future periods. In our view, these requirements are appropriate and sufficient. We do not agree with the proposed requirement to disclose individual policies for the application of materiality and the judgements management has made in accordance with those policies, as we believe that these will be unhelpful. Such requirements could well lead to "boiler-plate" disclosure made in order to avoid regulatory problems and a further substantial increase in the volume of unhelpful disclosures which hinder rather than enhance understanding and communication.

Note disclosures

The one area in which we think there may be a case for the provision of guidance about materiality is that of the notes to the financial statements. Many of our member-companies witnessed a vast increase in the volume of the notes to their financial statements upon the adoption of IFRS. In many instances such an increase in disclosure is actually detrimental to the quality and comprehensibility of the financial statements – "you can't see the wood for the trees". Although a major factor in this is clearly the volume of disclosures listed in IFRS, that is just one element which appears to be contributing to the creation of an environment which results in an unwillingness of companies and auditors to apply the same rigorous judgements of materiality to the disclosures as to the financial statements themselves. The audit checklist of disclosures seems in many cases to be taken as the minimum requirement irrespective of the materiality of the individual or groups of items involved when considered in the context of the financial statements as a whole.

In our view it is essential for the clarity and relevance of financial statements that the checklist mentality does not become pre-dominant and hamper the careful application of judgement taking into account all the circumstances of the reporting entity. We think it could be helpful if ESMA were to participate in the EFRAG/ANC/ASB/FASB Disclosure Framework project and help develop guidance about the objective of the notes. This guidance should reinforce the principle that materiality should be applied to all information to be included in the notes to the financial statements, and that only that information which is material to the financial statements, as defined in the IFRS Framework, should be provided.

We trust the above comments will be of use to you. Please do not hesitate to contact us if you require any further explanation or information.

Yours sincerely,

Jérôme P. Chauvin
Director
Legal Affairs Department
Internal Market Department