Rådet för finansiell rapportering

The Swedish Financial Reporting Board

RFR-rs 2012:04

European Securities and Markets Authority
103 rue de Grenelle
75 007 Paris
France

Dear Sirs,

Re: ESMA Consultation Paper Considerations of materiality in financial reporting

The Swedish Financial Reporting Board is responding to your invitation to comment on The Consultation Paper Considerations of materiality in financial reporting.

We oppose that guidance on this matter is issued by ESMA. We think that it is the role of the IASB to provide any guidance on materiality, if at all needed. One of the main advantages of IFRS is that it is a truly global standard and it is therefore critical that ESMA does not issue any guidance and should seek to discourage national regulators from doing so.

We believe that the guidance with regard to materiality that can be found in IAS 1 and in the Conceptual Framework is working very well as principles-based guidance. Any difficulties identified in practice should not lead to developing detailed, prescriptive application guidance. To the contrary, materiality is, by definition, a dynamic concept that involves judgment, and as the specific circumstances of a reporting entity are likely to differ from one entity to the next, different reporting outcomes do not necessarily imply that there is a divergence in how materiality is applied.

The concept of materiality plays an important part in the debate about how to keep financial statements fit for purpose in today's environment. There are several initiatives that have been launched at national, European and global level looking into these issues, mainly in the context of improving relevance by reducing unnecessary disclosure burden and making the information provided less boilerplate and more meaningful. In addition, the IASB is currently concluding on its agenda for the next three years and we have suggested that they take on a project to reduce disclosure requirements. Disclosures are a key area for materiality and an area where IFRS is criticized by many for requiring too much information leading to heavily overloaded annual reports.

With regard to the content of the Consultation Paper we have the following views.

We do not agree that omitting required notes giving additional information about a material line item in the financial statements automatically constitutes a misstatement.

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We believe that entities should apply judgment to assess, whether individual required disclosures are material or not, independently of the importance of the related line item in the primary financial statements. Entities should not use disclosure requirements in accounting standards as a checklist. The information should only be provided in the notes if it is deemed material.

We do not see any benefit in introducing a requirement to disclose an accounting policy about the entity's application of materiality. Applying the materiality concept requires the exercises of judgment, while considering specific facts and circumstances around specific items. Such a requirement will only give rise to descriptions that is generic and boilerplate and fails to convey any relevant information to users of the financial statements. We also note that, in IAS 1, there is already a general requirement to provide information about judgments that the management has made in the process of applying the entity's accounting policies.

Paragraph 21 on page 9 states that:
"Thus, while quantitative thresholds usually form part of a materiality assessment, the materiality of an item should not be determined solely by a simple quantitative comparison to primary statement totals such as profit for the period or statement of financial position totals. When considering a quantitative threshold in assessing materiality, the individual line item in the primary statement to which the item belongs should also be assessed when determining the materiality of the item in question."

We strongly believe that this conclusion is in itself not correct and it is hard to understand that it can so obviously be drawn from paragraph 20. We believe that it is a good example of the danger of trying to state specific rules for materiality.

Materiality is, and should always be, to a great extent entity specific and general guidance, especially of a quantitative kind, is not very meaningful. We believe that the materiality judgments should not be made in isolation, and that it is important that surrounding circumstances always be taken into account. Accordingly, whilst quantitative thresholds are helpful in highlighting the areas that require attention, they should never be applied mechanically without considering relevant qualitative factors.

A copy of this letter has been sent to the IASB.

If you have any questions concerning our comments please address our Executive member Claes Janzon by e-mail to: claes.janzon@radetforfinansiellrapportering.se

Stockholm, 16 March 2012

Yours sincerely

Anders Ullberg
Chairman

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