Norsk RegnskapsStiftelse

ESMA
103 rue de Grenelle
75007 Paris
France

Cc: EFRAG

Oslo, March 24th, 2012

Dear Sir/Madam

ESMA Consultation Paper: Considerations of materiality in financial reporting

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board - NASB) welcomes the opportunity to respond to your consultation paper "Considerations of materiality in financial reporting".

We provide our replies to your specific questions below. However, the major part of our discussions in the NASB relate to your question no. 2, which is about the role of ESMA with respect to issuing guidance on materiality. The Board members of the NASB are in two camps with approximately equal support. One camp holds the view that it is the responsibility of the IASB to formulate the principles of materiality and provide guidance and examples to make sure that practice becomes sufficiently uniform. Another camp considers that ESMA has a legitimate need to make clear what the understanding of materiality is, given the current wording of the standards and the Framework. The latter camp emphasizes that the IASB as sole standard setter always has the opportunity to change the wording of the standards and the Framework if the understanding by constituents is unsatisfactory.

There is consensus in our Board, however, that there should not be a specific European understanding of materiality in financial reporting. Whatever role ESMA considers for itself in this respect, it should seek to obtain a common understanding with non-European bodies with similar responsibilities. Failure to obtain a more global understanding may strengthen an unwanted tendency to distinct regional versions of IFRS.

Our replies to your specific questions are as follows:

Q1: Do you think that the concept of materiality is clearly and consistently understood and applied in practice by preparers, auditors, users and accounting enforcers or do you feel more clarification is required?

We agree that the understanding of the concept is not uniform and that practice is not consistent.

Q2: Do you think ESMA should issue guidance in this regard?

See above.

Q3: In your opinion, are 'economic decisions made by users' the same as users making 'decisions about providing resources to the entity'? Please explain your rationale and if possible provide examples.

Yes, we read "economic decisions" as a condensed version of "decisions about providing resources".

Q4: Is it your understanding that the primary user constituency of general purpose financial reports as defined by the IASB in paragraph 13 includes those users as outlined in paragraph 16 above? Please explain your rationale and if possible provide further examples.

According to the Framework the "primary users" are "existing and potential investors, lenders and other creditors". The excerpts from the Framework in paragraph 16 of the consultation paper describe some possible decisions of these users.

We note that 16 a) – d) are quoted from the Framework. It is not clear where letter e) comes from, and we question its legitimacy.

Q5a: Do you agree that the IASB's use of the word 'could' as opposed to, for example, 'would' implies a lower materiality threshold? Please explain your rationale in this regard.

No, we believe that the choice of verb is simply semantic. "Could" signifies a potential, as opposed to something deterministic.

Q5b: In your opinion, could the inclusion of the expression 'reasonably be expected to' as per the Auditing Standards, lead to a different assessment of materiality for auditing purposes than that used for financial reporting purposes. Have you seen any instances of this in practice?

There is no reason to believe that the different wordings indicate different materiality thresholds.

Q6a: Do you agree that the quantitative analysis of 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 and that the individual line item in the primary statement to which the item is included should be assessed when determining the materiality of the item in question? Please explain your rationale in this regard.

We agree.

Q6b: Do you agree that each of the examples provided in paragraph 21 a – e above constitute instances where the materiality threshold may be lower? Are there other instances which might be cited as examples? Please explain your rationale.

The question presumably refers to paragraph 22 at page 10. We agree that the materiality threshold may be lower in the situations described in paragraph 22 a – e than in other situations. There may be other situations as well, e.g. relating to take-over bids and share issues, where a particular attention is required from those preparing financial statements. Voluminous research indicates that financial statements are more frequently managed or manipulated in such circumstances. We also think that existence of large measurement uncertainty should be added to the list in paragraph 22.

Q7: Do you agree that preparers of financial reports should assess the impact of all misstatements and omissions, including those that arose in earlier periods and are of continued applicability in the current period, in determining materiality decisions. Please explain your views in this regard.

See our reply under Q8.

Q8: Do you agree that preparers of financial reports should assess the impact of all misstatements and omissions as referred to in paragraphs 23 to 26 above in determining materiality? Please explain your views in this regard and provide practical examples, if applicable.

We do not see clearly the nuances between Q 7 and Q8. However, we agree that the list of errors, misstatements and omissions given in paragraphs 24 to 27 at page 11 (that Q8 presumably is meant to refer to) is relevant.

Q9a: Do you believe that an accounting policy disclosing the materiality judgments exercised by preparers should be provided in the financial statements?
Q9b: If so, please provide an outline of the nature of such disclosures.
Q9c: In either case, please explain your rationale in this regard.

The NASB Board members are divided in the view on mandatory disclosure of materiality judgments. Some members argue that such disclosures would be very useful for users. Other members argue that it would be difficult to provide a meaningful compact description of such judgments, so it could easily become something superficial or very detailed and voluminous.

There is unanimity in the Board, however, that it is not within the authority of ESMA or national supervisors to require such disclosures.

Q10: Do you agree that omitting required notes giving additional information about a material line item in the financial statements constitutes a misstatement? Please explain your rationale in this regard.

No, we believe that the materiality consideration should be based on the importance of the omitted notes. There may be situations where omitting additional information about a material line item in the financial statements does not constitute a material misstatement. (We assume the word misstatement in the question and in paragraph 26 at page 12 refers to material misstatement.)

Q11: Do you believe that in determining the materiality applying to notes which do not relate directly to financial statement items but are nonetheless of significance for the overall assessment of the financial statements of a reporting entity:
(a) the same considerations apply as in determining the materiality applying to items which relate directly to financial statement items; or
(b) different considerations apply; and
(c) if different considerations apply, please outline those different considerations.

We believe that materiality thresholds for required disclosures not relating to the primary statements are not necessarily equal with those that relate to them.

Q12: In your opinion, how would the materiality assessment as it applies to interim financial reports differ from the materiality assessment as it applies to annual financial reports?

The question of applicability of guidance on materiality to interim reports should be considered once the guidance to annual financial reports has been established.

Yours faithfully,
Norsk RegnskapsStiftelse

Erlend Kvaal
Chairman of the Technical Committee on IFRS of Norsk RegnskapsStiftelse