

Investor Relations and Markets Committee

By email: www.esma.europa.eu

European Securities and Markets Authority
103 rue de Grenelle
75007 Paris
France

30 March 2012

Dear Sirs

CONSIDERATIONS OF MATERIALITY IN FINANCIAL REPORTING

We welcome the opportunity to respond to your consultation on materiality in financial reporting. In our response, we have not sought to answer all the questions raised. We have focused instead on our experiences as preparers of financial statements, including our interactions with investors and other stakeholders.

Who we are

The Hundred Group represents the views of the finance directors of FTSE 100 and several large UK private companies. Our member companies represent almost 90% of the market capitalisation of the FTSE 100, collectively employing over 7% of the UK workforce and in 2011, paid, or generated, taxes equivalent to 13% of total UK Government receipts. Our overall aim is to promote the competitiveness of the UK for UK businesses, particularly in the areas of tax, reporting, pensions, regulation, capital markets and corporate governance.

Our views

The concept of materiality underpins the preparation of financial statements. As CFOs of the UK's largest listed companies, we regularly take judgements as to what should, and what should not, be included in our Annual Reports, both in the context of the primary statements and information contained within note disclosures. We apply similar considerations to information contained within interim reports.

In making materiality judgements, we take into account both quantitative and qualitative factors, although the weighting applied to each of these may differ according to the item being considered. For example a disclosure that is known to be of critical importance to primary users of the financial statements may be deemed material more for qualitative reasons, rather than because it is quantitatively significant. We should add that our members typically view the primary users as being consistent with the definition of the International Accounting Standards Board (IASB) as comprising *existing and potential investors, lenders and other creditors who are unable to require information to be reported directly to them*. We do not agree that primary users extend to the additional users outlined in your consultation.

In our experience the concept of materiality is well understood by management and auditors when considering the accuracy of primary statements, however there is considerable uncertainty and variability of approach when this concept is applied to the note disclosures.

It is also often the case that the application of materiality can be coloured by the local financial reporting environment and past financial reporting practices. This may lead to a different application in different jurisdictions and has contributed over time to an unacceptable proliferation of disclosures in Annual Reports. Our members have long been concerned at the decline in the relevance of the Annual Report, which to a large extent is due to its increasing length and complexity. We continue to believe that the Annual Report is the primary means of communicating a company's historic performance to its key stakeholders and in our view the proper application of materiality has a vital role to play in reasserting its relevance.

We would welcome additional guidance on materiality, in particular its application to note disclosures, however we are concerned that any guidance issued by ESMA would necessarily only apply to companies registered in the EU. As representatives of multinational companies with extensive operations around the world and an investor base that reaches across the globe, it is critical that any guidance helps to bring a common understanding of materiality, rather than serving to codify any pre existing differences that exist by virtue of geography. We believe that any shortcomings in understanding materiality would be more appropriately addressed by the IASB given the global reach of their International Financial Reporting Standards (IFRS). We understand that as part of its future agenda consultation, the IASB will shortly announce its intention to re examine the disclosure framework within IFRS and this would represent a good opportunity for the IASB to incorporate guidance on the application of materiality to note disclosures. ESMA does have a part to play, however, and we recommend that you take this opportunity to feed the results of your consultation into the IASB's deliberation process.

We do not agree that the Annual Report would benefit by providing a disclosure on the materiality judgements made by the Directors. Given that the balance between quantitative and qualitative considerations will vary according to the specific financial statement item or disclosure, recording the basis for each of these decisions would lead to an extensive narrative which would defeat the object of reducing the clutter contained within financial statements. Anything less than a full disclosure invites the use of boiler plate language and would not add to the users' understanding of the financial information being presented.

Finally, we agree that it would be helpful for references to materiality in auditing and accounting standards to be aligned. The IASB and the International Auditing and Assurance Standards Board (IAASB) are already working together more closely and this would be a good issue for them to address jointly.

Please feel free to contact me if you wish to discuss the views contained within this letter.

Yours sincerely

Robin Freestone

Chairman

Hundred Group: Investor Relations and Markets Committee