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European Securities and Markets Authority
103 rue de Grenelle
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29 March 2012

Dear Sir/Madam,

ESMA Consultation Paper - ESMA/2011/373
Considerations of materiality in financial reporting

Standard Chartered PLC (the Group) is an international banking group, listed on the London, Hong Kong and Mumbai stock exchanges. It operates in more than 70 countries principally in Asia, Africa and the Middle East.

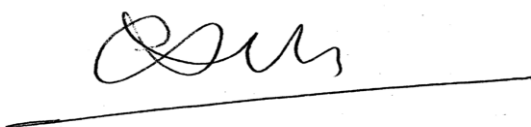
We welcome the opportunity to comment on the above consultation paper and provide our views for any further developments in this area, as may be warranted.

Materiality plays a fundamental role in judgements made by management in the preparation of financial statements and from our experience the principles underlying this critical concept are well understood in practice, particularly amongst preparers and auditors, not only in the EU but also across the many jurisdictions in which our Group operates. Nevertheless, given that ESMA has noted differing views around practical application, we would welcome the opportunity to review these inconsistencies and provide our comments.

It is our view that the role of developing and issuing any additional guidance, should it become necessary, lies with the International Accounting Standards Board (IASB) as the standard setter rather than with market regulators, which would risk introducing inconsistencies with non-EU jurisdictions. ESMA, as it has capably demonstrated, should continue its present regulatory role in reviewing the application and consistency of accounting practices.

We provide our detailed responses to the questions posed in the exposure draft in the attached appendix: *Responses to specific questions*.

Yours sincerely,



Chris Innes-Wilson
Head, Group Accounting Policy and Advisory

Appendix: Responses to specific questions

Question 1

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

We believe the concept of materiality is clearly understood. While the IASB's Conceptual Framework (the 'Framework') discusses materiality as a subsection of relevance in terms of providing a threshold below which relevance does not exist, the Framework provides limited specific guidance on identifying material items. This is, in our view, to be expected as agreeing on materiality is both a qualitative and quantitative assessment and requires consideration of the context in which a particular item is being assessed. The exercise of professional judgment in this regard is a fundamental aspect of determining what is material. The fact that practical application, particularly with regards to satisfying the needs of multiple stakeholders, may be difficult, should not be taken to imply that there is a need to introduce prescriptive rules around application.

Whilst the materiality concept may to lack consistency in application at times, this is generally reflective of differences in professional judgement where the validity of more than one conclusion is entirely reasonable. Materiality judgements can, as they should, vary significantly not just between industry sectors, but also between entities, as they are calibrated to the fundamental nature and risks of a particular entity. What may be material for one entity may not be material for another and divergence around reportable results should not therefore be read as the materiality concept having being applied in inconsistent manner. This position is in accordance with the principles based nature of IFRS where, while robust principles may result in a reduction in comparability, the information produced is of greater relevance and reliability for stakeholders.

Question 2

Do you think ESMA should issue guidance in this regard?

While we acknowledge ESMA's desire to develop its own guidance on materiality, as discussed in question 1, we do not consider there to be a need for additional guidance on materiality.

To the extent that additional guidance on this subject is considered appropriate, the responsibility for developing and issuing this should lie with the IASB or IFRS Interpretations Committee (IFRIC), both of which develop guidance taking into consideration the views of multiple stakeholders. While it is useful for ESMA to highlight the importance of the issue, as the materiality concept is global in its application we do not wish to encourage the creation of EU specific rules which could lead to inconsistencies arising from pronouncements by non-EU regulators.

The materiality concept is wider than any one jurisdiction, and we do not feel it is appropriate for ESMA to develop accounting guidance (be it on materiality or otherwise) when the role of standard setters such as the IASB is well understood.

Materiality has its foundation within the conceptual framework of IFRS (and other GAAP frameworks) and should remain so. We have consistently supported the IASB in seeking to finalise its conceptual framework and providing enhanced guidance around materiality could form a part of that revision.

Question 3

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

In our view these two expressions describe the basis for an identical principal, for which the interpretation should not differ on account of the choice of language used. We have firmly supported a principles based approach to developing IFRS and view the provision of resources to an entity, be they economic, or intrinsic such as time, to form the same basis as economic decisions made by users.

Question 4

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.

We agree that both paragraphs 13 and 16 describe the same groups of users. It is useful to note that users are listed in the Framework as existing and potential investors, lenders and other creditors. While it is reasonable to expect that the needs of all these groups cannot be met simultaneously, the investors perspective is generally chosen as the one most likely to be useful in the preparation of general purpose financial statements (i.e. the financial statements that meet the needs of investors who are providers of risk capital are taken to satisfy the needs of other users).

Question 5a

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.

Question 5b

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?

We do not agree that the IASB’s use of the word ‘could’ implies a lower materiality threshold. The Framework discusses the predictive value of relevant information in that the information contained within financial statements can be used as an “input to processes employed by users to predict future outcomes.” ‘Could’ is consistent and relevant in the context of assessing materiality as it underscores the need for management judgement. ‘Would’ in this case not only indicates a greater degree of certainty, thereby negating the judgemental aspect of materiality, but would imply having knowledge of the users decision making process – something which is unlikely to be available to anyone other than the user themselves.

It is the capacity to influence change which materiality implies, not the probability of a change taking place. With this said, we would like to reiterate our earlier point around the principles based nature of IFRS and do not feel this distinction is one which forms the basis for misapplication or inconsistency.

Despite the definition per the Auditing Standards being for a specific stakeholder group, we do not feel that this expression leads to a difference in interpretation as both expressions describe an identical principle. No instances to show variance in practice have been noted in the consultation paper, and as far as we are aware we do not believe this to be a cause for concern amongst stakeholders.

Question 6a

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 that materiality should not be determined solely by a simple quantitative comparison. In accordance with materiality as defined in IAS 1 *Presentation of Financial Statements*, materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size and nature of the item, or a combination of both, are understood to be the determining factor and we are not aware of any uncertainty around interpretation here. Paragraphs 29 and 30 of IAS 1 in particular focus on materiality of line items and note that items not sufficiently material to warrant presentation in a particular financial statement may warrant separate presentation in the notes.

Materiality, as per IFRS, also takes into consideration the characteristics of users which are assumed to have a reasonable knowledge of the business and economic activities and accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment of materiality not only takes into consideration qualitative and quantitative factors, but also takes into account the significance of topical issues and how users could reasonably be expected to be influenced in making economic decisions.

Question 6b

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

As a principle, we do not agree with the provision of particular lists as it risks failure in the exercise of professional judgement.

The items identified indicate a lower quantitative materiality threshold due to their inherent nature rather than quantitative considerations. While it is not possible to list all instances where items may be material purely on account of their nature, some common examples of items where the materiality threshold maybe lower include cash and cash equivalents, journal entries and changes in accounting policies in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Question 7

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.

We are of the view that materiality considerations should take into consideration the impact of all misstatements and omissions, including those arising in prior periods where these continue to be relevant, in respect of their potential to influence the economic decisions of users in the current reporting period.

Question 8

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

As above, we are of the view that the assessment of materiality should take into consideration the impact of all misstatements and omissions.

Question 9a

Do you believe that an accounting policy disclosing the materiality judgments exercised by preparers should be provided in the financial statements?

Question Q9b

If so, please provide an outline of the nature of such disclosures.

Question Q9c

In either case, please explain your rationale in this regard.

Applying the materiality concept requires the exercise of professional judgement and we are of the view that disclosure of a specific accounting policy around materiality judgements exercised by preparers would detract from providing relevant, entity specific information to users of financial statements. Moreover, IAS 1 already requires entities to disclose significant accounting estimates and judgements made by management in preparing the financial statements.

A specific policy detailing management's judgment around what is considered not material would, in our view, result in a voluminous, non-specific discussion around materiality, which would not add value from the perspective of the user, and could in-fact form an immaterial disclosure in itself.

Question 10

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.

While we agree that omitting a disclosure required by IFRS would constitute a misstatement, we feel that the determination of whether omitting such a disclosure is material constitutes a judgement that is separate from the materiality of the line item in the financial statements, though the same principles of materiality would be applied in making that determination.

Furthermore, before concluding whether such an omission would constitute a misstatement, it is worth noting that there may be circumstances, as discussed in IAS 1 paragraphs 19 – 23, in which management may conclude that compliance with an IFRS principle would be so misleading that it would conflict with the objective of financial statements set out in the Framework. This is taken into consideration during the course of judgements around assessing materiality.

Question 11

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 the same considerations apply as in determining the materiality applying to items which relate directly to financial statement items. Information should only be provided in the notes if it is material i.e. if it influences the users of financial statements.

Question 12

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?

We do not believe that the principles of materiality should be applied any differently whether interim, annual or special-purpose financial statements are being prepared.