

ESMA consultation paper

Considerations of materiality in financial reporting

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Background

In November 2011, the European Securities and Markets Authority (ESMA) published a consultation paper *Considerations of materiality in financial reporting*.

The consultation paper examines the concept of materiality from the perspective of the preparers of financial statements under IFRS. The consultation paper does not focus on materiality from an audit perspective, although it recognises that the definition of materiality in auditing standards may be different to that in IFRS.

It notes that there currently seem to be differing views regarding the practical application of the concept of materiality among preparers, auditors, users of the financial reports and, in some instances, regulators.

It also asks whether ESMA should issue guidance regarding materiality assessments, presumably as an overlay to, rather than amendment of, IFRS.

Request for views

The consultation paper proposes specific questions to gather views from interested parties on certain issues. ESMA's original comment deadline was 29 February 2012. This has now been extended to 30 March 2012.

ESMA plans to consider feedback received on the consultation paper in Q2 2012. Based on the comments received, ESMA will publish a final report regarding materiality considerations for financial reporting later in 2012.

Summary of consultation

The consultation paper discusses the following key issues.

- Consistency in understanding the concept of materiality and its application in practice among different parties (e.g. preparers, auditors, users, regulators).
- Whether materiality for general purpose financial reports should focus on the information needs of providers of capital or a broader set of stakeholders, and the types of decisions they make based on the information included in the financial reports.
- Factors to consider when determining quantitative thresholds, and whether and what qualitative factors should be considered when assessing materiality.
- Required assessments and judgements made by preparers of financial statements in respect of errors, omissions and misstatements, including those relating to earlier periods.
- How to assess the materiality of disclosures, and whether this should be based solely on the materiality of the related financial statement line item, if any.
- Whether preparers should provide an accounting policy disclosing their materiality judgements.

About ESMA

ESMA is an independent EU authority established in November 2010 by regulations of European Parliament and the Council of EU. ESMA contributes to safeguarding the stability of the EU's financial system by ensuring the integrity, transparency, efficiency and orderly functioning of securities markets, as well as enhancing investor protection. More information about ESMA can be found at www.esma.europa.eu.