



The Hundred Group
of Finance Directors

Investor Relations and Markets Committee

Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York 10017
USA

31 May 2011

Dear Madam or Sir

The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications

Who we are

The Hundred Group is a non-political, not-for-profit organisation which represents the finance directors of the UK's largest companies, with membership drawn mainly, but not entirely, from the constituents of the FTSE100 Index. Our aim is to contribute positively to the development of UK and International policy and practice on matters that affect our businesses, including taxation, financial reporting, corporate governance and capital market regulation. Whilst this letter expresses the view of The Hundred Group of Finance Directors as a whole, they are not necessarily those of our individual members or their respective employers.

Our views

We welcome the consultation by the International Auditing and Assurance Standards Board and the opportunity to respond on these issues. We have not sought to address the specific questions raised by the Board, but have restricted our comments to a single critical item, resolution of which we feel would render obsolete many of the questions and concerns raised in the document:

The application of the principle of materiality to disclosures

It is our experience that while the concept of materiality is well understood by management, auditors and regulators when considering the accuracy of primary statements, there is considerable uncertainty and variability of approach when this concept is applied to the note disclosures within the financial statements. There is also no explicit disclosure or discussion of materiality in financial statements, which may lead readers to draw incorrect conclusions about the precision of estimates and judgments within them.

In our view the note disclosures within the financial statements must be focused around the needs of the users of the financial statements, and be understood in this context. We strongly support a drive for balanced financial disclosure, which must provide a complete picture to investors and other stakeholders of the state of the enterprise's affairs, and clearly describe the key risks to investment decisions. However we question the practice of automatically including, by default, all disclosures that are set out in accounting standards and other requirements, regardless of the significance of those within financial statements. As International Financial Reporting Standards continue to be reviewed and developed by the IASB we anticipate that disclosure requirements under these standards will only increase

– increasing in turn the need for greater guidance on the application of these requirements by companies and auditors alike.

As management our definition of a material disclosure is one which could, if misstated, influence the decision making of an investor or stakeholder, for example to invest in, or to engage with the company. The determination of when a disclosure is material requires judgement and a sound knowledge and understanding of a company's operation and business model and an appreciation of what is important to the user. For example, for some companies disclosures concerning financial instruments and sensitivity analysis will be hugely important, yet for others such disclosure will be of limited relevance and risk. A differential approach should be encouraged between two such entities so that a reader of the financial statements has a clear view of the relative risks associated with elements of the financial statements and yet is not confronted with a lot of meaningless irrelevance.

In our view, additional guidance on materiality of disclosures for preparers and auditors would be welcome, around the application of the materiality concept when considering disclosure items, as well as explanation in the financial statements of how those materiality principles have been applied. We suggest the IAASB considers the beneficial impact of further guidance in this area.

Please feel free to contact me if you wish to discuss our comments on the proposals.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R. Freestone', with a long horizontal flourish underneath.

Robin Freestone

Chairman

The Hundred Group – Investor Relations and Markets Committee