



CENTER FOR CAPITAL MARKETS
COMPETITIVENESS

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December 7, 2015

Mr. Russ Golden
Chairman
Financial Accounting Standards Board
301 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-05116

Re: Proposed Accounting Standards Update on *Notes to Financial Statements (Topic 235) Assessing Whether Disclosures Are Material* (File Reference No. 2015-310)

Dear Chairman Golden:

The U.S. Chamber of Commerce (the “Chamber”) created the Center for Capital Markets Competitiveness (“CCMC”) to promote a modern and effective regulatory structure for capital markets to fully function in a 21st century economy. To achieve these goals, the CCMC has supported the development of robust financial reporting systems and encouraged efforts to improve standards and reduce complexity.

The CCMC appreciates the opportunity to comment on the Financial Accounting Standards Board (“FASB”) Exposure Draft on the Proposed Accounting Standards Update on *Notes to Financial Statements (Topic 235) Assessing Whether Disclosures Are Material* (“the Proposal”). The Proposal is part of FASB’s disclosure framework project to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by generally accepted accounting principles (“US-GAAP”).¹ The CCMC is a strong supporter of improving disclosure effectiveness and reducing disclosure overload.² We believe that this

¹ See page 1 of the Proposal.

² For example, see the October 9, 2013 CCMC letter to the Honorable Mary Jo White on the modernization of financial reporting policies; the November 19, 2012 CCMC letter to FASB Chairman Russ Golden on the *Disclosure Framework* (File Reference 2012-220); and the July 14, 2014 CCMC letter to FASB Chairman Russ Golden on *Statement of Financial Accounting Concepts Chapter 8: Notes to Financial Statements* (File Reference No. 2014-200).

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proposal is an important step forward in reducing financial statement complexity and providing decision useful information necessary for investors and to assist capital formation.

The Proposal would amend Subtopic 235-10 to add the following paragraphs:

- *Materiality is applied to quantitative and qualitative disclosures individually and in the aggregate in the context of the financial statements taken as a whole; therefore, some, all, or none of the requirements in a disclosure Section may be material.*
- *Materiality is a legal concept.*
- *The omission of immaterial disclosures is not an accounting error.³*

The CCMC supports these proposed amendments. We, likewise, support the provision in the Proposal to eliminate existing phrases in US-GAAP like “an entity shall at a minimum provide” and replace such phrases with less prescriptive language. As noted in the Proposal, such phrases would be an impediment to omitting immaterial disclosures.⁴ The CCMC would also like to incorporate by reference a comment letter that the Chamber filed with FASB today, *Notes to Financial Statements (Topic 235) Assessing Whether Disclosures Are Material* which also includes some of the same topics covered by the Proposal.

However, we do have several concerns in regards to other aspects of the Proposal. For example, an appendix to the Proposal uses stock compensation disclosures to illustrate a flexible disclosure requirement that FASB might apply in amending existing US-GAAP. In amending Subtopic 718-10-50-2, the illustration states:

*The following list illustrates how the disclosure objectives in paragraph 718-10-50-1 might be satisfied. In some circumstances, **an entity may need to disclose information that***

³ See page 7 of the Proposal.

⁴ See page 3 of the Proposal.

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is not listed in the requirements because that information is material and would help achieve the disclosure objectives (emphasis added).⁵

This language puts an “open-ended” burden on management, audit committees, and auditors to consider disclosures not identified as required by US-GAAP. It opens the door to having judgments by these parties second-guessed after-the-fact by regulators and users; it exacerbates litigation risk; and it undermines the very objectives of FASB’s disclosure overload project.

In addition, the Proposal notes that one obstacle in the current system that may affect an entity’s incentive and ability to omit immaterial disclosures is the Public Company Accounting Oversight Board’s (“PCAOB”) requirement for the auditor to communicate omissions of immaterial disclosures as errors to audit committees,⁶ in accordance with PCAOB auditing standard (“AS”) No. 16. The Proposal intends to overcome this obstacle by reinforcing that omitting a disclosure of immaterial information is not an accounting error (misstatement).

The CCMC encourages both FASB and the Securities and Exchange Commission (“SEC”) staff to work with the PCAOB to ensure that this objective is achieved, including that any necessary amendments to PCAOB AS No. 16 are accomplished. Given the wording of current requirements in PCAOB auditing standards including AS No. 16,⁷ there may be confusion about whether some subset of omitted disclosures of immaterial information would still be required to be communicated to and discussed with the audit committee. In addition, the PCAOB would need to train its inspection staff to ensure that inspectors interpret the requirements of PCAOB auditing standards consistent with FASB’s intent.

Finally, the CCMC encourages FASB to avoid using the Proposal as a basis for promulgating expansive disclosure requirements down-the-road in future projects. This could occur if FASB were to begin to rationalize that because entities can determine disclosures are immaterial, various disclosures on an “expansive list” can be inapplicable for a particular entity under its facts and circumstances.

⁵ See page 17 of the Proposal.

⁶ See page 2 of the Proposal.

⁷ For example, see requirements for auditor communications with audit committees such as AS 16.13 on the auditor’s evaluation of the quality of the company’s financial reporting and AS 16.18 on uncorrected and corrected misstatements.

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In conclusion, the CCMC supports the major provisions of the Proposal. We hope that FASB will continue its commitment to the disclosure framework project to improve disclosure effectiveness and reduce disclosure overload.

The CCMC stands ready to assist in these efforts for effective disclosures that convey relevant information for market participants and mitigate disclosure overload and finance reporting complexity.

Sincerely,

A handwritten signature in black ink, appearing to be 'TK' followed by a long horizontal flourish.

Tom Quaadman