

December 8, 2015

Russell G. Golden
Chairman
Financial Accounting Standards Board
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Via email: director@fasb.org

File Reference: 2015-310 *Assessing Whether Disclosures are Material*
2015-300 *Chapter 3: Qualitative Characteristics of Useful Financial Information*

Dear Chairman Golden:

The American Bankers Association¹ (ABA) appreciates the opportunity to comment on the exposure draft *Assessing Whether Disclosures are Material* (ED1) and the exposure draft *Chapter 3: Qualitative Characteristics of Useful Financial Information* (ED2). ED1 addresses difficulties among financial statement preparers and auditors in assessing whether to disclose certain information. It also proposes the notion that materiality is a legal concept. By emphasizing materiality as a legal concept, ED2 changes the glossary definition of materiality within the Accounting Standards Codification.

ABA supports the guidance in ED1 and does not oppose the change to the definition of materiality in ED2 to that which is used for legal purposes. Based on our understanding of ED2, which changes the emphasis of materiality from "...could influence decisions that users make on the basis of the financial information..." to the legal definition that emphasizes what "would have been viewed by a reasonable resource provider as having significantly altered the total mix of information", we do not believe financial reporting *practice* in the U.S. will necessarily change based on the proposal. Indeed, providing meaningful information to investors is the principle underlying both EDs and SEC Staff Accounting Bulletin No. 99 *Materiality* (SAB 99) refers to both FASB's definition of materiality and the legal concept (proposed in ED2), along with various qualitative circumstances and issues to consider in assessing materiality. We caution the Board, however, that codifying materiality as a legal concept may have unintended consequences. A process that ultimately requires sign-off by legal counsel on all materiality decisions during a financial statement audit would be untenable.

¹ The American Bankers Association represents banks of all sizes and charters and is the voice for the nation's \$14 trillion banking industry and its two million employees.

We also recommend that the Board work with the SEC, the PCAOB, and the AICPA's Auditing Standards Board to harmonize language that promotes consistency in application. For example, while SAB 99 uses the term "would (have been viewed...)", AU 312 uses the words "could (have a material effect...)". The words denote different levels of probability that invite confusion and lack of consistent application. In this spirit, Board should also consider addressing commonly used terms applied in practice such as "significant" and "de minimus".

We believe ED1 provides clarity to the existing general guidance that provisions of the Codification need not be applied to immaterial items (paragraph 105-10-05-6) and as such we support the proposal. Discussion within the Basis for Conclusions ED1 appropriately notes certain frustrations that some financial statement preparers have in assessing materiality. Often, concerns about potential litigation and unnecessary inquiries by auditors, the audit committee, and SEC staff can result in excessive disclosure by default. In this context, preparers and their audit committees may merely be reacting to fears that auditors have related to PCAOB inspections, as well as to perceptions of a bias toward inclusion of such items by the SEC staff. As a result, bank financial statements often become a sea of data that must be carefully mined in order to retrieve decision-useful information.

This is especially true as it relates to interim period disclosures. While GAAP and current guidance from the SEC emphasize that interim financial statements should focus on relevant and material changes since the prior annual period, the FASB has issued several standards over the past few years that require disclosures to be presented every reporting period. Thus, it is becoming progressively more challenging for bank investors to identify new information and significant changes from the prior annual financial statements. The proposals in the EDs do not specifically address these interim disclosure requirements. We believe the final ASU from ED1 should explicitly address interim period disclosures, both for the purpose of determining materiality within the interim financial statement reporting period as well as in relation to the year-end financial statements.

While the EDs may result in a decrease in the *number* of disclosures reported, we believe the *quality* of disclosure will, nevertheless, be improved. Financial statement users will be relieved of much of the noise in current financial reporting, providing an improved focus on the most relevant and decision useful information. Many bank credit officers, who are important users of financial statements, have indicated that they would prefer that more succinct financial information be available, focusing on what is truly important to the financial picture of the entity preparing the financial information.

Improvements provided by ED1 include guidance that an omission of immaterial disclosures is not an accounting error (paragraph 235-10-50-9) as well as the elimination of wording throughout the current Accounting Standards Codification such as "an entity shall at a minimum provide..." These provide significant improvements both to the guidance itself and to consistency within the guidance, which will help preparers evaluate what will bring relevant information to the user. In other words, we believe the proposed language in ED1 would allow financial statement preparers (and their auditors) to better focus on disclosure that is informative and decision-useful, rather than providing excessive detail that may obscure the most important aspects of the total mix of information.

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Thank you for your attention to these matters and for considering our views. Please feel free to contact me (mgullette@aba.com; 202-663-4986) if you would like to discuss our views.

Sincerely,

A handwritten signature in black ink that reads "Michael L. Gullette". The signature is written in a cursive style with a large, stylized initial "M".

Michael L. Gullette