



December 8, 2015

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

**File Reference: 2015-300 – Proposed Concepts Statement  
Conceptual Framework for Financial Reporting Chapter 3:  
Qualitative Characteristics of Useful Financial Information**

**File Reference: 2015-310 – Proposed Accounting Standards Update  
Notes to Financial Statements (Topic 235)  
Assessing Whether Disclosures Are Material**

Dear Ms. Cosper:

The Edison Electric Institute (EEI) and the American Gas Association (AGA) appreciate the opportunity to comment on the Financial Accounting Standards Board's (FASB or Board) two Exposure Drafts referenced above regarding materiality and financial statement disclosures (hereafter the "Exposure Drafts").

EEI is the association that represents all U.S. investor-owned electric companies. EEI members provide electricity for 220 million Americans, operate in all 50 states, and directly employ more than 500,000 workers. With more than \$90 billion in annual capital expenditures, the electric power industry is responsible for millions of additional jobs. EEI has 70 international electric companies as Affiliate Members and 250 industry suppliers and related organizations as associate Members. Organized in 1933, EEI provides public policy leadership, strategic business intelligence, and essential conferences and forums.

The AGA, founded in 1918, represents 202 local energy companies that deliver clean natural gas throughout the United States. There are more than 70 million residential, commercial and industrial natural gas customers in the U.S., of which almost 93 percent – more than 65 million customers – receive their gas from AGA members. AGA is an advocate for natural gas utility companies and their customers and provides a broad range of programs and services for member natural gas pipelines, marketers, gatherers, international gas companies and industry associates. Today, natural gas meets almost one-fourth of the United States' energy needs.

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EEI and AGA regularly work together on projects of mutual interest that impact the energy utility sector broadly. The comments expressed herein represent the majority view of each organization's member companies and address only certain questions that are most relevant to our members.

We agree with the underlying goal of the Exposure Drafts—to improve the effectiveness of disclosures in the notes to the financial statements—and appreciate the Board's efforts to do so.

We believe that the change in the definition of materiality will have varying levels of effect, depending on an entity's historical disclosure practices and interpretations of guidance. Entities that already apply a materiality threshold in determining disclosures may not change their disclosures as a result of this guidance. For entities that do not currently apply a materiality threshold in determining the extent of their disclosures, the proposal may reduce or remove immaterial disclosures, as long as the costs of assessing and documenting materiality conclusions justify the benefits associated with removing them.

Lastly, while the proposed changes to the definition of materiality mark an important step toward improving the effectiveness of disclosures, we believe it is necessary to make targeted improvements to individual standards in order to have a more measureable effect. Therefore, we encourage the Board to continue its initiative to evaluate the cost-benefit of disclosure requirements of individual standards, such as those being considered in the topics of fair value measurement, defined benefit plans, income taxes, inventory, and interim disclosures.

We now address several of the specific questions asked by the FASB in the proposals.

**Question 1 – Would assessing materiality subject to the proposed changes to paragraphs 235-10-50-7 through 50-8 be any easier than under current GAAP? If yes, please explain why.**

Assessing materiality would not necessarily be easier under the new definition—that assessment still requires a thorough process, including qualitative and quantitative analyses and consideration of surrounding circumstances and the total mix of information presented. Since substantially all of our members are SEC registrants, they already apply the definition of materiality proposed (i.e. the Supreme Court's definition). However, having a single underlying definition of materiality for both SEC and GAAP purposes would simplify and provide a common understanding of the underlying requirements.

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**Question 2 – Would applying the amendments in this proposed Update significantly increase or reduce costs of preparing the notes to financial statements? Why or why not?**

It is possible that the proposed update would reduce costs. To the extent disclosures are reduced, time would be saved by no longer preparing, reviewing and auditing immaterial disclosures, and any associated costs of acquiring information would be eliminated. The costs associated with disclosures determined to be immaterial would, however, be offset to some extent by the time needed to analyze disclosures for materiality individually and in the aggregate, and prepare the documentation required for internal control purposes, auditors and regulators.

**Question 3 – Would the amendments in this proposed Update change the information you otherwise would include in the notes to financial statements? Why or why not? If yes, how would that increase, diminish, or otherwise change the notes' usefulness to investors, creditors, and other financial statement users?**

We believe the proposed update would change the amount of information presented in the notes to financial statements. The scope of the change would depend not only on the nature of each entity's current disclosure, but also on how an entity changes its interpretation of the definition of materiality. For example, our industry generally provides lengthy discussions of regulatory matters (rate cases, etc.) and litigation. The volume of these disclosures would not likely change noticeably, as these matters would likely continue to be deemed material to our industry.

However, regulatory treatment of certain items may allow entities to conclude that related disclosures are immaterial. For example, affected categories of disclosure might include information regarding intangibles, derivatives, investments in debt and equity securities (nuclear decommissioning trust funds), fair value, variable interest entities (receivables financings), pensions and other employee benefits, and stock compensation. The current disclosures would potentially be reduced if the regulatory treatment results in an immaterial financial statement effect of these topics.

By reducing the amount of immaterial and less relevant information presented, users would be able to focus their attention on more useful disclosures; in addition, users would not be misled into believing that disclosed items of an immaterial nature were actually relevant if materiality is applied consistently across entities. Both effects on users would make disclosures more effective.

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**Question 4 – Do you expect regulatory, legal or audit consequences that would affect your ability to consider materiality when selecting information to be disclosed in notes to financial statements? Please explain.**

The proposal would provide registrants authoritative guidance to reference when discussing materiality with regulators, legal counsel and auditors. It is the discussion with these constituents that develops the assessment of materiality ultimately used by management to conclude what disclosures would be material or not and may omitted.

An auditor’s “passed disclosure” list may currently include items that the issuing entity deems immaterial but the auditors deem not immaterial due to the ‘minimum information needed’ guidance currently in the Accounting Standards Codification (ASC). By clarifying the guidance on materiality, the “passed disclosure” list may reflect fewer discrepancies between conclusions about disclosure reached by auditors and preparers.

Potential legal consequences and auditors’ bias to reduce their litigation risk may influence “close calls” such that omitting immaterial disclosures may as a practical matter only apply in instances when all constituents reach consensus.

**Question 5 – How would you disclose information in comparative financial statements if assessment of materiality differed in different years?**

The amendments may not change how an entity determines the material disclosures required in comparative statements. We believe an entity’s assessment of materiality for the current reporting period should be the primary driver when determining disclosures for all periods presented. The prior periods presented should then be evaluated in light of the current period disclosure requirements; however, disclosures that were considered material to prior periods could not be omitted arbitrarily without considering how the prior year disclosure affects the comparability of the financial statements. Entities should reevaluate disclosures that were provided in prior periods to determine if the disclosure remains relevant in light of the current assessment of materiality.

In some instances, an entity may prefer to disclose prior-year information even though it could be excluded based on the current assessment of materiality. We do not believe GAAP should limit an entity from doing so because each company is best suited to tailor its disclosures for financial statement users. Using the same logic, we believe GAAP should not require an entity to include disclosure of immaterial information solely for the sake of comparability to prior periods.

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The following scenario illustrates how our view would operate in practice.

*The assessment of materiality for the current period (CP) results in a higher level of materiality than the assessment for the prior period (PP).*

Disclosure could be excluded from the CP because the information falls below the current assessment of materiality. If the comparable disclosure for the PP exceeded the current assessment of materiality, disclosure of PP information would be required (i.e., it is material).

Alternatively, if the comparable disclosure for the PP is no longer consider material using the current assessment, such disclosure previously made in earlier periods could be reevaluated. If the company determines that the disclosure previously made in the PP is no longer relevant or useful in the total mix of information available to financial statement users, the disclosure could be removed from the current report.

This principle would be relied on even when such PP disclosure was considered material at the time it was made in earlier periods. The company would not be precluded from continuing to provide the information in the current report, and the company would not be required to provide it unless the company determines, in the context of the total mix of information being provided, the PP disclosure is material to the current report.

**Question 6 – Should the Board eliminate from the Accounting Standards Codification phrases like “an entity shall at a minimum provide” and other wording that could appear to limit an entity’s discretion to omit immaterial disclosures? Are there particular Topics or Sections in which those changes should not be made? Are there additional paragraphs within the Accounting Standards Codification in which the wording is particularly restrictive and is not identified in Appendix B of this proposed Update? If so, please identify them.**

We agree that the FASB should eliminate phrases that could appear to limit an entity’s ability to omit immaterial disclosures. In practice, these phrases, such as “an entity shall, at a minimum, disclose...” limit the ability for entities to make judgments about materiality. This change provides entities the “green light” to consider omitting immaterial disclosures and removes the burden of complying with the standard to “the letter of the law,” even though the disclosure may have been immaterial.

We are not aware of any particular Topics or Sections that should retain the restrictive language. Removing this language from all Topics and Sections, rather than some but not others, would create a consistent framework on which all entities could base their disclosures.

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**Question 7 – Do you agree with the proposed amendment that would explicitly state that the omission of an immaterial required disclosure is not an accounting error? Why or why not?**

We agree with the proposed amendment that would explicitly state that the omission of an immaterial required disclosure is not an accounting error. While entities currently have the ability to omit immaterial items under ASC 105, in practice many entities are not taking advantage of that ability. Providing an explicit statement that the omission of an immaterial required disclosure is not an accounting error will assist an entity's ability to support their new disclosure determination and focus their disclosures on information that is significant to a financial statement user, as compared to current practice where providing all required disclosures may hinder such focus.

In addition, providing such an explicit statement will provide a common framework that could help to mitigate the risk to entities that auditors or regulators, including the SEC through the issuance of comment letters, may consider omission of immaterial disclosures to be an accounting error.

**Question 9 – Should the proposed amendments be effective upon issuance?**

We agree that the proposed amendment should be effective upon issuance. We support the FASB's objective of improving the effectiveness of financial statement disclosures and believe that entities should apply these concepts to all future financial statement issuances. These amendments would allow entities to apply judgment over which required disclosures to include in financial statement notes, and as such, entities could apply these amendments as their time and cost restraints allow. Therefore, there is no reason to delay the effective date due to implementation costs.

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EI and AGA appreciate the opportunity to provide our input on these Exposure Drafts. We would be pleased to discuss our comments and to provide any additional information that you may find helpful.

Very truly yours,

/s/ Richard F. McMahon, Jr.

Richard F. McMahon, Jr.  
Vice President, Edison Electric Institute

/s/ William R. Ford

William R. Ford  
Vice President & Chief Accounting Officer  
WGL Holdings, Inc. and Washington Gas Light Company  
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