FICPA

Florida Institute of Certified Public Accountants

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Technical Director
Financial Accounting Standards Board
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Electronically submitted to director@fasb.org

File Reference No. 2015-310 and File Reference No. 2015-300

Re: Proposed Accounting Standards Updates:
- i) Notes to Financial Statements (Topic 835), *Assessing Whether Disclosures are Material*
- ii) Conceptual Framework for Financial Reporting, *Chapter 3: Qualitative Characteristics of Useful Financial Information*

Dear Ms. Cosper:

The Accounting Principles and Auditing Standards Committee (the "Committee") of the Florida Institute of Certified Public Accountants ("FICPA") respectfully submits its comments on the referenced proposals. The Committee is a technical committee of the FICPA and has reviewed and discussed the above referenced proposed accounting standards updates issued by the Financial Accounting Standards Board ("FASB"). The FICPA has approximately 19,500 members, with its membership comprised primarily of CPAs in public practice and industry. The Committee is comprised of 22 members, of whom 50% are from local or regional firms, 9% are from large multi-office firms, 18% are sole practitioners, 9% are in international firms, and 14% are in academia or private industry. Therefore we are addressing these exposure drafts both from the viewpoint of preparers of financial statements as well as those performing attest services on them. The Committee underwent significant discussion and has the following comments related to the questions posed by the FASB:

Notes to Financial Statements (Topic 835), *Assessing Whether Disclosures are Material*

Question 1: No, the Committee believes the proposed changes to paragraphs 235-10-50-7 through 50-8 would not make the assessment of materiality any easier under GAAP for the following reasons:

Paragraph 235-10-50-7:

The Committee asserts that the apparent distinction being made between quantitative and qualitative disclosures may lead to confusion as the Committee believes the materiality of an item should be assessed in the context of both its quantitative as well as its qualitative nature as outlined in FASB Statement of Financial Accounting Concepts Statement No. 2 paragraphs 123 through 132.

Similarly, this concept is also described in U.S. Securities and Exchange Commission ("SEC") Staff Accounting Bulletin No. 99 and as further cross-referenced to American Institute of Certified Public Accountants ("AICPA") Auditing Standards Board ("ASB") Statements on Auditing Standards No. 107 paragraph 59, respectively:

> "…the shorthand in the accounting and auditing literature for this analysis is that financial management and the auditor must consider both 'quantitative' and 'qualitative' factors in assessing an item's materiality."

> "…as a result of the interaction of quantitative and qualitative considerations in materiality judgments, misstatements of relatively small amounts that come to the auditor's attention could have a material effect on the financial statements."

Paragraph 235-10-50-8:

The Committee asserts that the broad language outlined in paragraph 235-10-80-8 without appropriate and adequate guidance would not make the assessment of materiality easier under GAAP and could create confusion and/or varied interpretation by financial statement preparers, users and auditors as to the intended involvement of legal counsel.

Alternatively, the Committee does not take exception to certain concepts being held by the Supreme Court being integrated in to the applicable accounting standards. As noted in SAB 99 with respect to the interaction between law and accounting, "this formulation in the accounting literature is in substance identical to the formulation used by the courts in interpreting the federal securities laws."

Therefore, the Committee would suggest consideration of integrating the concepts further outlined in SAB No. 99, (based on case law in *TSC Industries v. Northway, Inc. 426 U.S. 438, 449 (1976)*), as follows:

> "…the Supreme Court has held that a fact is material if there is - a substantial likelihood that the…fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of information made available."

Such aforementioned language could also be combined with and refined with the language referenced by the Committee related to paragraph 235-10-50-7 above.

Question 2: The Committee believes that applying the amendments in this proposed Update could have varying effects on the costs of preparing the notes to the financial statements. For instance, the Committee acknowledges that there could be reduced time and costs to prepare the notes to the financial statements if additional items are deemed to be not material under the proposed Update.

However, the Committee also asserts that if the 'legal concept' outlined in paragraph 235-10-50-8 remains, the implications of this proposed Update could create additional time and costs as a result of further discussions between financial statement preparers and auditors and potential involvement of legal counsel.

Further, the Committee does agree with the considerations outlined in the Background Information and Basis for Conclusions (BC) paragraph 5 whereby costs may decrease over time as a result of consistency if more items are deemed to be not material: "Outreach with auditors has indicated that the costs of complying with the amendments in this proposed Update, if any, would decrease significantly after the initial materiality assessment, particularly when an entity's activities are consistent over time."

Question 3: The Committee believes that the proposed Update has the potential to decrease the amount of information included in the notes to the financial statements if financial statement preparers and auditors agree on additional items deemed to be not material under the proposed Update. Further, the Committee believes that if agreement is obtained for removal of such items from the notes to the financial statement footnotes that this would likely increase the usefulness to investors, creditors and other financial statement users.

Question 4: Yes, depending on the financial statement user that there could be regulatory or legal requirements that could limit the application of the proposed Update in the selection of information to be disclosed in the financial statements (ex. governmental bodies, financial institutions or other entities; bond covenants, legal documents, grants and contract agreements which may have certain disclosure requirements).

Question 5: The Committee believes that the disclosure of comparative financial statements depends on the nature of the disclosure item and the related disclosure requirements under the Accounting Standards Codification ("ASC") and that those disclosure requirements would need to be contemplated in combination with this proposed Update. In general, we would anticipate that if an item is deemed material in one period that it would be presented for all comparative periods unless clearly disclosed otherwise with respect to immaterial periods.

Question 6: Although there were varying views surrounding this aspect of the Update, the Committee largely did not take exception to the Board eliminating such phrases with the belief this is in accordance with the FASB's continued simplification project.

Question 7: Yes, the Committee agrees that the omission of an immaterial required disclosure is not an accounting error as defined in GAAP including ASC 250-10-20 and the reduction of notes to the financial statements could potentially result in a reduction of time and costs. Please see the Committee's response to Question 3 above.

Question 8: No, the Committee does not believe there are any separate considerations that would apply to not-for-profit entities.

Question 9: Yes, the Committee agrees that the proposed amendments should be effective upon issuance; however, several Committee members believed that only prospective application was preferable to allowing for retrospective application to avoid confusion to financial statement users.

Conceptual Framework for Financial Reporting, *Chapter 3: Qualitative Characteristics of Useful Financial Information*

Question for Respondents: Please see the Committee's response to Questions 1 through Question 9 above with respect to the Proposed Accounting Standards Update to Notes to Financial Statements (Topic 835), *Assessing Whether Disclosures are Material* regarding the Committee's views surrounding the amendment to the modification of the current definition of materiality and agree with the Board that the definition of materiality should be consistent between the two standards.

The Committee appreciates the opportunity to respond to the Proposed Accounting Standards Updates. Members of the Committee are available to discuss any questions you may have regarding this communication.

Respectfully submitted,

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Chair, FICPA Accounting Principles and Auditing Standards Committee

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