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December 8, 2015

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

**File Reference No. 2015-310**

**Re: Proposed Accounting Standards Update, *Notes to Financial Statements (Topic 235)* — *Assessing Whether Disclosures Are Material*; and Proposed Amendments to Chapter 3, “Qualitative Characteristics of Useful Financial Information,” of FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting***

Dear Ms. Cospers:

Deloitte & Touche LLP is pleased to comment on (1) the FASB’s proposed Accounting Standards Update (ASU) *Notes to Financial Statements (Topic 235) — Assessing Whether Disclosures Are Material* (the “proposed ASU”) and (2) the FASB’s proposed amendments to Chapter 3, “Qualitative Characteristics of Useful Financial Information,” of Concepts Statement 8<sup>1</sup> (the “proposed amendments to the Conceptual Framework”).

We support the Board’s effort to improve the effectiveness of disclosures in the notes to financial statements and encourage the FASB to continue its work in this regard. Further, we believe that providing clarity regarding disclosures to be made in the notes to the financial statements facilitates good financial reporting by focusing on those matters that are most meaningful to users of the financial statements.

**Materiality as a Legal Concept**

We support replacing the existing definition of materiality within Concepts Statement 8 with the Board’s observation of the U.S. Supreme Court’s definition of materiality. However, regarding the concept of materiality, we disagree with the statement in both the proposed ASU and the proposed amendments to the Conceptual Framework that materiality is a legal concept. Rather, we believe materiality is a general concept that is pervasive and not restricted to financial reporting or the legal environment. In our view, it is a concept that many types of professionals have to interpret and make judgments about.

Referring to materiality as a legal concept may be construed as requiring someone within the legal profession to make, or be involved in making, materiality judgments on the grounds that only a person with such credentials would have the requisite knowledge and education. We believe that as a result,

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<sup>1</sup> FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting* (“Concepts Statement 8” or the “Conceptual Framework”).

such “legal concept” language potentially exposes preparers and auditors to additional scrutiny from regulators or legal consequences for failure to involve the legal profession in making materiality assessments when historically, such involvement has not occurred and has not been deemed necessary. Further, we do not believe that involvement of a member of the legal profession is required to make sound materiality judgments, nor do we believe that a requirement for such involvement is what the FASB intended.

### **Evaluation of Errors**

We believe that the guidance in ASC 105-10-05-6, which states that the “provisions of the Codification need not be applied to immaterial items,” is applicable to disclosures in the notes to the financial statements. However, we can appreciate that such language may not have been interpreted by everyone in the same manner. We also appreciate that the Board’s proposed amendments are intended to simplify the disclosure process and foster more effective disclosures.

We have contemplated whether and, if so, how management’s determination to exclude or not to exclude disclosures from a financial report on the basis of materiality judgments would depend on whether or not such judgments are considered errors. Currently, in accordance with our interpretation of ASC 105-10-05-6 as noted above, management already can appropriately exclude immaterial disclosures from financial reports. Hence, preparers and auditors are already making judgments about whether omitted disclosures are immaterial. It is difficult to predict future behavior, but perhaps with an explicit statement that omitted immaterial disclosures are not errors, both preparers and auditors may feel more comfortable with omitting particular disclosures as opposed to simply taking the “safe” path of including everything.

We do not believe that the omission of immaterial disclosures will have an adverse effect on users if preparers and auditors make appropriate judgments about what is truly immaterial. A good example might be a large conglomerate that has a very small pension plan in one country. Pension disclosures can be very extensive, yet depending on facts and circumstances, an appropriate conclusion could be that there is no substantial likelihood that the omission of some or even all of those disclosures would significantly alter the total mix of information available to a financial statement user.

However, we believe the explicit statement that an immaterial omitted disclosure is not an error could affect a reporting entity’s governance and oversight of such judgments. For example, deeming that a disclosure omission is not an error could unintentionally influence “close-call” judgments about materiality if the proposed ASU has the consequence of reducing oversight of those difficult judgments (e.g., if it were no longer deemed necessary to bring such judgments to the attention of an audit committee). We acknowledge that governance and oversight are not the FASB’s responsibility but are within the authority of other regulators and standard setters. Thus, we believe that the FASB should coordinate with other regulators and standard setters (e.g., the SEC, PCAOB, and AICPA) to strike the right balance between ensuring the effectiveness of financial reporting and maintaining good governance and oversight. The extent to which the proposed ASU increases disclosure effectiveness may be affected by the actions of these other parties, such as the issuance of regulations or standards requiring communications by the auditor to the audit committee about omitted immaterial disclosures regardless of whether the omissions are errors.

File Reference No. 2015-310  
December 8, 2015  
Page 3

In addition, we encourage the FASB to probe further into the other obstacles to removing immaterial disclosures from financial reports before it finalizes the proposed amendment to deem omission of immaterial disclosures not to constitute accounting errors. The governance reporting consequences is unlikely to be the only obstacle. For example, the expectations about documentation of judgments may contribute to the inclusion of immaterial disclosures in financial reports if meeting the documentation requirement each period takes more effort than meeting the reporting requirement (without implying an opinion on whether it does or should). For both documentation and reporting, it is often necessary to collect the same information, so the incremental effort is often in the documentation of why an omission is immaterial or in the reporting. Also, there may be a bias toward keeping certain immaterial disclosures since (1) there are no prohibitions against including immaterial disclosures in financial reports (assuming that such disclosures do not obscure material information) and (2) immaterial disclosures are seldom questioned. If these types of other barriers cannot be overcome, the proposed amendment to ASC 235 under which omitted immaterial disclosures would be deemed not to constitute accounting errors might not have the desired effect on disclosure effectiveness and therefore may not be worth pursuing.

Appendixes A and B below contain our responses to the Board's questions for respondents related to the proposed ASU and the proposed amendments to the Conceptual Framework.

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We appreciate the opportunity to comment on the proposed ASU and the proposed amendments to the Conceptual Framework. If you have any questions concerning our comments, please feel free to contact Robert Uhl at (203) 761-3152.

Yours truly,

Deloitte & Touche LLP

cc: Robert Uhl

**Appendix A**  
**Deloitte & Touche LLP**  
**Responses to Questions for Respondents Related to the Proposed ASU**

***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.*

Not necessarily. We believe that the proposed changes help clarify that entities should consider the notion of materiality when evaluating financial statement disclosures. While we support the proposed addition of ASC 235-10-50-7 for clarity, ASC 105-10-05-6 already provides that the “provisions of the Codification need not be applied to immaterial items.” Thus, we believe that the assessment of whether an omitted disclosure is material will remain substantively unchanged for many.

We also believe that it may be challenging for preparers and auditors to assess how they should perform an evaluation of immaterial disclosures omitted from financial reporting under multiple Codification topics in determining whether, on an aggregate basis, the omitted disclosures are material to the financial statements. The FASB should consider whether additional application guidance on aggregation and other issues is warranted.

Further, we do not agree that materiality should be defined as a legal concept in ASC 235-10-50-8 as added by the proposed ASU; rather, it is a general concept. We believe that describing materiality as a legal concept may subject preparers and auditors to unintended consequences.

***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?*

As stated in our letter, we believe that there may be several obstacles to removing immaterial disclosures from financial reports, including:

- The possibility that expectations about documentation of judgments may contribute to the inclusion of immaterial disclosures in financial reports if meeting the documentation requirement each period takes more effort than meeting the reporting requirement.
- A bias toward inclusion since (1) there are no prohibitions against including immaterial disclosures in financial reports (assuming that such disclosures do not obscure material information) and (2) immaterial disclosures are seldom questioned.

Thus, these amendments may not have the full desired effect if other obstacles remain.

Further, we believe that the primary impact of the proposed ASU will not be limited to what is or is not disclosed in financial reports but may also involve a potential change to the communications that preparers and auditors have with those charged with governance (e.g., fewer communications regarding omitted errors deemed to be immaterial that are “close calls”). Accordingly, we believe that the FASB should coordinate with other regulators and standard setters (e.g., the SEC, PCAOB, and AICPA) to strike the right balance between ensuring the effectiveness of financial reporting and maintaining good governance and oversight.

File Reference No. 2015-310  
December 8, 2015  
Page 5

**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.*

Potentially. As previously noted, stating that materiality is a legal concept could lead to a belief that reporting entities should consult the legal profession when making decisions related to the assessment of materiality. Given that assumption, failure to do so could result in subjecting preparers, audit committees, and auditors to undue (and, we believe, unintended) scrutiny or challenge regarding their materiality judgments.

Classifying disclosure omissions as being or not being errors may affect a reporting entity's governance and oversight of such judgments. For example, deeming that the omission of an immaterial disclosure is not an error could unintentionally influence "close-call" judgments (e.g., if it were no longer deemed necessary to bring such judgments to the attention of an audit committee under AS 16<sup>2</sup>). See further discussion in our response to Question 3 above.

**Question 5:** *How would you disclose information in comparative financial statements if your assessments of materiality differed in different years?*

We believe that a preparer may continue to exclude a historically omitted immaterial disclosure in a subsequent reporting period when the assessment of the disclosure in the subsequent period results in a determination that such disclosure is material in relation to the subsequent-period financial statements. That is, a determination in a subsequent period that a disclosure is material does not change a prior-period determination that the disclosure is immaterial to the prior-period financial statements. However, we believe that it would also be acceptable for a preparer to include previously omitted disclosures for purposes of comparability or otherwise given there is no prohibition against including immaterial items.

**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 believe that the elimination of the stated and/or similar phrases would be appropriate and would help ensure that the materiality notion is consistently applied throughout all disclosures under U.S. GAAP.

We are not aware of particular Codification topic or sections in which such changes other than those identified should be made.

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<sup>2</sup> PCAOB Auditing Standard No. 16, *Communications With Audit Committees*.

**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?*

As stated in our letter, we understand the objective of the proposed ASU's statement that the omission of immaterial disclosures is not an accounting error. However, as also stated in our letter, we believe that the FASB should coordinate with other regulators and standard setters (e.g., the SEC, PCAOB, and AICPA) to strike the right balance between ensuring the effectiveness of financial reporting (which is within the purview of the FASB) and maintaining good governance and oversight (which is within the purview of the others). Consideration might be given to the following:

- Assuming that the omission of an immaterial disclosure is not considered an error for financial reporting purposes, what is the implication of that assumption for those charged with governance? For example, paragraph 18 of AS 16 states that the "auditor should provide the audit committee with the schedule of uncorrected misstatements related to accounts and disclosures that the auditor presented to management," and footnote 34 thereto states that "[f]ootnote 13 to paragraph 20 of [PCAOB Auditing Standard No. 14, *Evaluating Audit Results*,] indicates that misstatements include omission and presentation of inaccurate or incomplete disclosures." How would this guidance be applied?
- Although not deemed to be errors, would "close calls" be required to be communicated since such determinations may require a significant qualitative judgment?
- Should omitted immaterial disclosures be accumulated and evaluated for an indication of bias that might then require communication to those charged with governance in accordance with paragraph 12 of AS 16?
- Should there be clarity on how preparers and auditors determine how to evaluate whether omitted disclosures are qualitatively or quantitatively material "in the aggregate"? This is a relatively simple process when quantitative errors related to line items in financial statement balances can be "added up" to facilitate the process of evaluating them in the aggregate. However, such a process of "adding up" errors may not be as easily applied to financial statement disclosures; therefore, evaluating omitted financial statement disclosures in the aggregate may become particularly challenging when, for example, there are omitted disclosures under multiple Codification topics.

**Question 8:** *Are there considerations other than those discussed in this proposed Update that would apply to not-for-profit entities?*

We are not aware of other considerations for not-for-profit entities.

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

Yes.

File Reference No. 2015-310  
December 8, 2015  
Page 7

**Appendix B**  
**Deloitte & Touche LLP**  
**Response to Question for Respondents Related to the**  
**Proposed Amendments to the Conceptual Framework**

***Question:** Do the proposed amendments improve Concepts Statement 8? If so, how? If not, why?*

No. For the reasons stated in our letter, we do not believe that materiality should be referred to as a legal concept. However, we support the FASB's elimination of the current definition of materiality in Concepts Statement 8 and inclusion of the Board's observation that the U.S. Supreme Court has provided a definition of materiality to which the FASB and others may refer.