



**Michael Monahan**  
Senior Director, Accounting Policy

December 8, 2015

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

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

Dear Ms. Cospers:

The American Council of Life Insurers (ACLI)<sup>1</sup> welcomes the opportunity to comment on this important matter. We fully support the Financial Accounting Standards Board’s (Board’s) disclosure framework project, the primary purpose of which is to improve the effectiveness of disclosures in the notes to the financial statements by facilitating clear communication of the information required by generally accepted accounting principles (GAAP) that is most important to users of a reporting entity’s financial statements.

We expect the amendments in the Proposed Update to generally improve the amount of discretion reporting entities would have in applying the disclosure requirements in U.S. GAAP to their particular financial statements. However, we do have concerns that the change in focus of materiality to a legal concept could have unintended consequences, depending on how it is interpreted by the legal and audit communities. Below we have summarized key comments to the Proposed Update. The attachment to this letter provides our responses to specific questions in the Proposed Update.

### **Guidance Improving a Reporting Entity’s Discretion**

ACLI supports the guidance in the Proposed Update indicating that some, all, or none of the requirements in a disclosure Section may be deemed material, after considering the disclosure requirements individually and in the aggregate in the context of the financial statements taken as a whole. We believe that this guidance provides clarification to preparers and their auditors in assessing materiality with respect to disclosure requirements of a particular Accounting Standards Codification

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<sup>1</sup> The American Council of Life Insurers (ACLI) is a Washington, D.C.-based trade association with 284 member companies operating in the United States and abroad. ACLI advocates in federal, state, and international forums for public policy that supports the industry marketplace and the 75 million American families that rely on life insurers’ products for financial and retirement security. ACLI members offer life insurance, annuities, retirement plans, long-term care and disability income insurance, and reinsurance, representing more than 90 percent of industry assets and premiums. Learn more at [www.acli.com](http://www.acli.com).

(ASC) Section, and should make it easier for preparers to assess materiality for new disclosure requirements going forward.

ACLI strongly supports the guidance in the Proposed Update that states that the omission of an immaterial disclosure is not an accounting error. This change will provide preparers with more discretion to eliminate disclosures not deemed material, by removing the added audit and administrative costs and complexity associated with monitoring and internally reporting omitted disclosures. We also agree with the proposal to remove all references in the ASC that refer to minimum disclosure requirements, which would otherwise limit a preparer's discretion in applying the proposed guidance.

### **Guidance on Materiality as a Legal Concept**

ACLI has some concerns with the guidance in the Proposed Update that states materiality would be a legal concept, as outlined in our response to "Proposed Amendments to Statement of Financial Accounting Concepts, *Conceptual Framework for Financial Reporting, Chapter 3: Qualitative Characteristics of Useful Financial Information*" dated December 8, 2015. Our primary concern is the implication this could have on the current materiality assessment process at most companies. Moving materiality to a legal concept could potentially cause a significant increase in the amount of effort and documentation needed for preparers to justify all disclosures currently omitted due to materiality, or planned to be omitted based on the guidance elsewhere in the Proposed Update. It is also uncertain whether auditors will require additional documentation or legal representations in light of this proposed change. ACLI does not have a concern with the current definition of materiality, and believes the legal concept seems to focus on investors, versus other key stakeholders. In summary, given the uncertainty around the amount of effort that would be needed for companies to evaluate materiality under this new definition (both initially and on an on-going basis) we are not convinced the benefits of changing the definition exceed the potential costs.

### **Effective Date of the Proposed Guidance**

The ACLI believes that the proposed amendments should not be effective upon issuance, given the uncertainty as to the legal and audit consequences, as discussed above. Before reaching a conclusion on the effective date, we recommend that the Board reach out to the legal and audit communities to better understand the consequences of the proposed shift in materiality to a legal concept. At a minimum, we recommend that the effective date be no earlier than one year after issuance for public companies and two years for all other companies, with early adoption permitted.

Sincerely,



Michael Monahan  
Senior Director, Accounting Policy

Attachment

## Questions from Proposed ASU, Topic 235- Whether Disclosures Are Material

**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.**

ACLI supports the proposed guidance in paragraph 235-10-50-7, indicating that some, all, or none of the requirements in a disclosure Section may be deemed material, after considering the disclosure requirements individually and in the aggregate in the context of the financial statements taken as a whole. We believe that this guidance provides clarification to preparers and their auditors in assessing materiality with respect to disclosure requirements of a particular Accounting Standards Codification (ASC) Section, and should make it easier for preparers to assess materiality for new disclosure requirements going forward. We also expect this clarification, along with the proposed guidance in paragraph 235-10-50-9 stating that the omission on immaterial disclosures is not an accounting error, to help preparers justify the removal of certain current disclosures that are deemed immaterial under this revised framework.

We do have some concerns, however, with the proposed guidance in paragraph 235-10-50- 8, that states materiality would be a legal concept, as outlined in our response to “Proposed Amendments to Statement of Financial Accounting Concepts, *Conceptual Framework for Financial Reporting, Chapter 3: Qualitative Characteristics of Useful Financial Information*” dated December 8, 2015. Our primary concern is the implication this could have on the current materiality assessment process at most companies. Moving materiality to a legal concept could potentially cause a significant increase in the amount of effort and documentation needed for preparers to justify all disclosures currently omitted due to materiality, or planned to be omitted based on the proposed guidance in paragraphs 235-10-50-7 and 50-9. It is also uncertain whether auditors will require additional documentation or legal representations in light of this proposed change. ACLI does not have a concern with the current definition of materiality, and believes the legal concept seems too focused on investors, versus other key stakeholders. In summary, given the uncertainty around the amount of effort that would be needed for companies to evaluate materiality under this new definition (both initially and on an on-going basis) we are not convinced the benefits of changing the definition exceed the potential costs.

**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?**

All else unchanged, the proposed guidance in paragraphs 235-10-50-7 and 50-9 may result in reduced disclosures and, in turn, lower preparation and audit costs. However, given the proposed shift in focus of materiality to a legal concept as outlined in paragraph 235-10-5-8, it is not certain whether these changes will ultimately reduce the costs of preparing the notes to the financial statements. As noted in our response to Question 1, uncertainty exists as to whether basing materiality on a legal construct could increase the preparation time necessary to assess materiality and/or the level of disclosures currently made. This could, in turn, have a direct significant impact on audit costs and have potential significant costs with outside counsel providing independent audit evidence to auditors.

**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?**

ACLI believes the proposed guidance in paragraphs 235-10-50-7 and 50-8, in and of themselves, would most likely result in reduced disclosures, as certain current disclosures would be deemed immaterial. We assume that the removal of disclosures that are no longer deemed material would enhance the usefulness of financial statements. However, it remains uncertain as to whether moving the definition of materiality to a legal construct could have the potential to increase disclosures, thus diminishing the usefulness of the financial statements.

**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 proposed changes would undoubtedly require more legal involvement, given the reference to materiality as a legal concept. This would have an impact on management's ability to assess materiality with respect to individual disclosure requirements. It remains uncertain as to how the audit community would change its processes or procedures to address these changes, for example, requiring some form of legal representation with respect to all disclosures omitted, currently as well as newly removed disclosures, based on immateriality.

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

If a quantitative disclosure was omitted in prior periods, given it was deemed to be immaterial, but then became material in the current period, it may be appropriate, in most situations, to begin quantitatively disclosing the information in the current period, with a qualitative explanation as to why the disclosures are omitted for prior periods (i.e. due to immateriality, as opposed to not being applicable to those prior periods). However, that should be left to the discretion of management.

Alternatively, if a quantitative disclosure was included in prior periods, but is deemed immaterial in the current period, it may be appropriate, in most situations, to omit the current period quantitative disclosures, but retain the prior period disclosures given the financial statements for comparative purposes. A qualitative explanation as to why the current year disclosure was omitted would accompany the prior period information. However, that should be left to the discretion of management. If the current period amounts are deemed immaterial, but it is reasonably possible that the amounts could be material again in a subsequent period, it may make sense to continue to provide quantitative disclosures in the current period, even if deemed quantitatively immaterial in the current period.

**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.**

ACLI supports the proposal to remove all references in the ASC that refer to minimum disclosure requirements, which would otherwise limit a preparer's discretion in applying the proposed guidance.

Although we have not performed an exhaustive search, we are not aware of any additional “restrictive” disclosure requirements in the ASC that have not been identified in Appendix B.

**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?**

ACLI strongly supports the proposed amendment in paragraph 235-10-50-9, stating that the omission of an immaterial disclosure is not an accounting error. This change will provide preparers with more discretion to eliminate disclosure not deemed material, by removing the added audit and administrative costs and complexity associated with monitoring and internally reporting omitted disclosures.

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

ACLI does not have a view on this topic.

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

ACLI believes that the proposed amendments should not be effective upon issuance, given the uncertainty as to the legal and audit consequences, as discussed in prior responses. Before reaching a conclusion on the effective date, we recommend that the Board reach out to the legal and audit communities to better understand the consequences of the proposed shift in materiality to a legal concept. At a minimum, we recommend that the effective date be no earlier than one year after issuance for public companies and two years for all other companies, with early adoption permitted.