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December 9, 2015

Susan M. Cospers, CPA  
Technical Director  
FASB  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

**Re: September 24, 2015 Exposure Draft of Proposed Amendments to Statement of Financial Accounting Concepts (SFAC), *Conceptual Framework for Financial Reporting, Chapter 3: Qualitative Characteristics of Useful Financial Information [Materiality]* [File Reference No. 2015-300]**

Dear Ms. Cospers:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 412,000 members in 144 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the ED and is providing the following comments for your consideration.

### **GENERAL COMMENTS**

TIC fully supports the Board's efforts to improve Concepts Statement No. 8 by linking the description of materiality to a legal concept and referencing the U.S. Supreme Court's definition as an example. Before the amendments are finalized, however, TIC recommends further clarification around the application of the legal concept to avoid possible confusion in practice as to its use in various jurisdictions.

## SPECIFIC COMMENTS

**Question:** *Do the proposed amendments improve Concepts Statement 8 [Chapter 1, “The Objective of General Purpose Financial Reporting,” and Chapter 3, “Qualitative Characteristics of Useful Financial Information”]? If so, how? If not, why?*

TIC believes the proposed amendments represent an improvement to Concepts Statement 8, since they provide greater clarity around the concept of materiality for financial reporting purposes. Application of the legal concept in the U.S. would change the concept of material information from omitted or misstated information that could influence users’ decisions to omitted or misstated items where there is a “substantial likelihood” that a “reasonable resource provider” would view the omissions or misstatements as having “significantly altered the total mix of information.”

TIC believes these changes represent a more realistic approach to the concept of materiality. The extant definition of materiality may be contributing to disclosure overload since it is broader than the legal definition adopted by the Supreme Court. The consideration of materiality under the extant language is based on what could influence users’ decisions rather than what would influence the decisions of a so-called “reasonable person” (i.e., a “reasonable resource provider”). TIC believes it is almost impossible to assess all possible factors that could influence the decisions made by all potential users. TIC therefore concluded that the proposed amendments strike an appropriate balance in the quest to improve the effectiveness of the notes and disclose what’s important while avoiding excessive, unnecessary disclosures.

Within the U.S., the proposed amendments also would foster a consistent definition of materiality. The language used in the Supreme Court definition is very similar to the existing language in SEC Staff Accounting Bulletin No. 99 (SAB 99), *Materiality*, which is already applicable to public companies and is sometimes used by private entities.

Linking the concept of materiality to a legal definition (rather than developing a unique FASB definition of materiality) also provides a better foundation for entities to assess materiality with respect to both current and future accounting standards. This approach is more likely to withstand the test of time if the legal definition of materiality should change at some point in the future.

### Potential Implementation Issue

During the deliberations on this ED, TIC members discussed the example of the U.S. Supreme Court’s definition of materiality. Although TIC understands the Board does not promulgate definitions of materiality, using the Supreme Court’s definition as an example could cause some confusion in practice. TIC suggests that language be added to the final statement that makes it clear that when considering materiality one should use the most restrictive definition of materiality in the jurisdictions where one operates.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink that reads "Michael A. Westervelt". The signature is written in a cursive style with a large initial 'M'.

Michael A. Westervelt, Chair  
PCPS Technical Issues Committee  
cc: PCPS Executive and Technical Issues Committees