



14 December 2015

Susan M. Cospers, Technical Director  
Russell G Golden, Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

Via email: [director@fasb.org](mailto:director@fasb.org)

RE: **File No. 2015-300** Proposed Amendments to Statement of Financial Accounting Concepts – **Conceptual Framework** and **2015-310** Notes to Financial Statements (Topic 235) **Assessing Whether Disclosures are Material**

Dear Ms. Cospers and Chair Golden:

On behalf of the International Corporate Governance Network (ICGN), we thank you for the opportunity to provide our comments on both the Financial Accounting Standards (FASB) Exposure Drafts (ED) on the *Conceptual Framework (CF), Chapter 3: Qualitative Characteristics of Useful Financial Information* and the *Notes to Financial Statements (Topic 235)- Assessing Whether Disclosures are Material*. ICGN appreciates the opportunity to comment and sees the importance of providing an international perspective to the CF and ED. ICGN is a global membership organisation of over 670 institutional and private investors, corporations and advisors from 48 countries. Our investor members are responsible for global assets of over US\$26 trillion.

ICGN's mission is to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies worldwide. In doing so, ICGN encourages cross border dialogue at conferences and influences corporate governance public policy through its committees. We promote good practice guidance, encourage leadership development and keep our members informed on emerging issues in corporate governance through publications and the ICGN website. Information about the ICGN, its members, and its activities is available on our website: [www.icgn.org](http://www.icgn.org).

The ICGN Accounting and Auditing Practices Committee addresses and comments on accounting and auditing issues from an international investor and shareowner perspective. The committee through collective comment and engagement strives to ensure the quality and integrity of financial reporting around the world: [www.icgn.org/policy/committees/accounting-and-auditing](http://www.icgn.org/policy/committees/accounting-and-auditing).

ICGNs Global Governance Principles, 7.2 defines Materiality as:

Relevant and material information should be disclosed on a timely basis so as to allow investors to take into account information which assists in identifying risks and sources of wealth creation. Issues

material to investors should be set out succinctly in the annual report, or equivalent disclosures, and approved by the board itself.

ICGN has focused on issues involving materiality and has commented on proposals on accounting materiality on several occasions. The CF and ED represent a dramatic shift in posture and appear to represent a greater threat to our investor constituency than any of those other proposals.

In 2010, as part of a joint effort by the FASB and the International Accounting Standards Board (IASB), the boards worked on aligning the definition of materiality. Both the FASB and the IASB took unilateral steps to amend the converged definition of materiality in their frameworks. In April of 2015 the IASB proposed minor wording changes to the description of materiality conceptual framework by narrowing the focus to the primary users of general purpose financial reports.<sup>1</sup> The IASB also decided to provide guidance in its draft Practice Statement to clarify the concept of materiality and to provide guidance on its application, rather than to change the existing requirements in IFRS.

ICGN views the FASB's proposed amendments as a major concern for investors. From ICGN's perspective the proposed approach changes the dynamics of and purpose of financial reporting. The proposed assessments would shift the balance in guiding companies from robust and effective disclosure for the benefit of primary users of financial statements to only disclosures that are material based on a "legal concept" and the discretion of preparers as to what a reasonable investor would use in making a decision. The change would amend paragraph QC11 from:

Information is material if omitting it or misstating it could influence decisions that users make on the basis of the financial information of a specific reporting entity. In other words, materiality is an entity specific aspect of relevance based on the nature or magnitude or both of the items to which the information relates in the context of an individual entity's financial report.<sup>2</sup>

To:

Materiality is a legal concept. In the United States, a legal concept may be established or changed through legislative, executive or judicial action...<sup>3</sup>

We are disturbed that issuers would have to look to the legislative and judicial process in determining the basic contents of financial reporting. We understand that there are questions regarding FASB's approach given the US Supreme Court has only provided contextual definitions of materiality and has not provided an opinion for materiality in the current context. In the CF, FASB has opted to use a portion of the definition used by the Supreme Court as a guide. This goes against a 35 year history

<sup>1</sup> IASB discussed Materiality Project, 29 April 2015. <http://www.ifrs.org/Current-Projects/IASB-Projects/Disclosure-Initiative/Materiality/Project-news/Pages/Project-news-April-2015.aspx>

<sup>2</sup> FASB ED, Conceptual Framework for Financial Reporting, QC11, page 3, September 24, 2015. [http://www.fasb.org/jsp/FASB/Document\\_C/DocumentPage?cid=1176166402450&acceptedDisclaimer=true](http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176166402450&acceptedDisclaimer=true)

<sup>3</sup> Ibid

of independently defining materiality and raises concerns that extend well beyond FASB issues, given that FASB is claiming that it cannot define terms.

In addition, general purpose financial reporting should provide assurance to those who depend on the performance of the company, (primarily shareholders, but also including creditors and other stakeholders) and be helpful for decisions about buying, selling, or holding equity and debt instruments, and for shareholders fulfilling their responsibilities as asset owners in their assessment of the company's management and its long term strategy.<sup>4</sup> FASB in its OB4 of Concept Statement 8 appears to agree with this approach, however, the current CF amendment and ED detract from these principals and provide no support for assessing management.

ICGN recommends that FASB reconsiders the proposal, develops a plan to review materiality that involves investors in a substantive manner and considers the entirety of uses of materiality prior to making a change.

ICGN appreciates the opportunity to respond. We hope that these comments are useful in your deliberations and the ICGN Policy Director, George Dallas ([george.dallas@icgn.org](mailto:george.dallas@icgn.org)), would be happy to elaborate on any of the points raised in this letter. Thank you for your consideration.

Yours truly,

Erik Breen

Chairman

International Corporate Governance Network

[Erik.Breen@triodos.nl](mailto:Erik.Breen@triodos.nl)

**ICGN contacts:**

Kerrie Waring, Executive Director, ICGN: [kerrie.waring@icgn.org](mailto:kerrie.waring@icgn.org)

Elizabeth Murrall, Co-Chair, ICGN Accounting and Auditing Practices Committee:  
[liz.murrall@theinvestmentassociation.org](mailto:liz.murrall@theinvestmentassociation.org)

James Andrus, ICGN Accounting and Auditing Practices Committee:  
[james\\_andrus@calpers.ca.gov](mailto:james_andrus@calpers.ca.gov)

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<sup>4</sup> ICGNs letter to the IASB providing comments on the ED on the Conceptual Framework for Financial Reporting (ED/2015/3), 13 November, 2015. <https://www.icgn.org/icgn-comments-iasb-consultation-re-conceptual-framework-financial-reporting>