

December 18, 2015

To the FASB Technical Director:

Although the comment period has closed, I would appreciate your consideration of the following comments on the proposed change to the definition of materiality in the conceptual framework.

The proposed definition is based on and includes the definition stated by the U.S. Supreme Court. The Supreme Court's definition is that "information is material if there is a substantial likelihood that the omitted or misstated item would have been viewed by a reasonable resource provider as having significantly altered the total mix of information."

- The term "total mix of information" is vague and not workable. It presumes a focus on the particular item of information in question, which adds nothing useful.
- The definition hinges on the word "significantly," thus making something material if it is significant. This requires a definition of "significant," and the matter becomes a circular exercise.

Materiality is better defined in the SEC's rules.

- The term "material" as defined in Rule 1-02(o) of Regulation S-X "limits the information required to those matters about which an average prudent investor ought reasonably to be informed."
- This definition is similar to that in Rule 12b-2 under the 1934 Act, which defines the term "material" as "those matters to which there is a substantial likelihood that a reasonable investor would attach importance in determining whether to buy or sell the securities registered." Rule 405 under the 1933 Act is substantially the same.

The existing definition in the Conceptual Framework is:

"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."

This definition is more understandable and practical than the one provided by the Supreme Court.

The definition of materiality must have a context, and that should be the consequence of the misstatement or omission of the information; that is, as it relates to financial information, how it will affect an investor's investment decision or a lender's loan decision.

For the reasons stated above, I recommend that the FASB not change the definition in the conceptual framework to the definition it is proposing.

Thank you for considering my comments.

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