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December 21, 2015

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

File Reference No. 2015-310

Dear Ms. Cospers:

Connor Group, Inc. is pleased to provide our comments on the Proposed Accounting Standards Update, *Notes to Financial Statements (Topic 235), Assessing Whether Disclosures Are Material*. Connor Group was founded in 2005 and is a technical accounting advisory firm built of Big 4 alumni and industry executives. We currently have over 400 clients and specialize in helping our clients solve complex technical accounting issues under both U.S. GAAP and IFRS. Our clients represent industries such as technology, software, internet, cloud services, life sciences and manufacturing, amongst others. In addition, we assist many of our clients with aspects of their accounting and financial reporting during their IPO filing process.

We have included below our responses to the “Questions for Respondents” posed in the Proposed Amendments.

Comments on Questions for Respondents

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.*

We believe assessing materiality subject to the proposed changes to paragraphs 235-10-50-7 through 50-8 would not become easier than under current GAAP. Referring to materiality as a legal concept will make assessment of materiality by the issuers of the financial statements less intuitive, may require higher degree of legal judgment when preparing financial statements and may create certain practical application challenges for issuers operating in international financial markets or audited by small audit firms. Also, we do not anticipate that paragraph 235-10-50-8 will have significant positive impact on issuers’ assessments of materiality since, in our experience, the issuers heavily weigh quantitative thresholds of materiality when determining the extent of disclosures in the financial statements. We do not anticipate the proposed revisions will change this pattern.

We also find the statement in paragraph 235-10-50-7 that materiality is applied to quantitative and qualitative disclosure individually and in the aggregate in the context of the financial statements taken as a whole contradictory to the statement in paragraph 235-10-50-8 that materiality is a legal concept. It



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appears that paragraph 235-10-50-7 tries to define certain aspects of materiality which may not necessarily be consistent with the legal concept of materiality in the United States or foreign jurisdictions.

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?*

In our opinion the proposed amendments will not significantly reduce costs of preparing financial statements. As noted in our response to Question 1, issuers often refer to a quantitative materiality threshold. This threshold is usually established at a sufficiently low level, e.g., 5% of income before income taxes, to make unnecessary many significant judgments related to nature of information presented in financial statements. We note that issuers, as well as auditors, find it more practical and efficient to use a single low quantitative materiality threshold for all items in the financial statements instead of justifying a more qualitative approach which considers the nature and type of the information included in financial statements. We believe the proposed amendments will not change this practice. Additionally we anticipate that potential cost savings could be offset by increased costs related to more rigorous and more conservative use of quantitative threshold and qualitative considerations due to revised definition of materiality as a legal concept, as we noted in our comments to the Proposed Amendments to Statements of Financial Accounting Concepts, *Conceptual Framework for Financial Reporting, Chapter 3: Qualitative Characteristics of Useful Financial Information*. In particular, we are concerned that the liability provisions of the Securities Act of 1933 combined with the legal definition of materiality will prevent issuers from reducing costs of preparing the notes to financial statements because investors do not need to prove reliance on misstatements or omissions as the cause of their loss.

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?*

We expect that the proposed Update could result in elimination of certain quantitative disclosures for some of our clients based on the guidance in paragraphs 235-10-50-7 and 235-10-50-9. However, as discussed in our response to Question 2, we do not believe that these changes will significantly change the extent of costs and efforts required to prepare the financial statements. We expect that in some cases issuers would prefer to add additional quantitative and qualitative information to minimize the risk of omission of material information because the practical application of assessing materiality as a legal concept will be less understood by issuers than the existing guidance on materiality.

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.*

Current and the proposed definition of materiality as a legal concept is based on a broad judgment of relevance of information for resource providers. Various stakeholders can make different judgments which



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we believe companies would find very difficult to reconcile without incurring significant costs. It is for these reasons that companies tend to defer to the use of a single low quantitative materiality threshold. Using different quantitative thresholds for various items in financial statements or reverting to use of qualitative considerations on a frequent basis is unlikely to be feasible from practical perspective as it would consume significant resources for both companies and auditors without providing corresponding benefit in cost or disclosure reduction. Due to such constraints, we believe issuers will continue to rely on a single low quantitative threshold.

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

We expect that if materiality considerations result in information previously disclosed no longer being deemed material, many issuers will be able to omit such information from the financial statements.

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 support the Board’s proposal to 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 as it would eliminate perceived inconsistency between ASC 235-10-50-7 and other sections of Accounting Standard Codification.

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?*

We strongly support the proposed amendment that would explicitly state that the omission of an immaterial required disclosure is not an accounting error. We believe this amendment would eliminate one of the obstacles which preclude some issuers from omitting immaterial information from financial statements which has little or no relevance to the users of financial statements. Further, we believe similar language would be helpful with regards to accounting for immaterial items in the financial statements. In particular, just as accounting standards used to expressly indicate that they need not be applied to immaterial items, we believe that a failure to follow standards for immaterial items should not be deemed an accounting error.

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

In our opinion, the proposed amendments should become effective at a later date than the issuance date if the Board decides to retain the reference to materiality as a legal concept. The deferral of the effective



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date will provide issuers and their auditors with sufficient time to change internal processes, controls and audit scopes to address the revised concept of materiality. We support the proposed amendment being effective upon issuance if the Board decides to retain the existing concept of materiality.

We would be pleased to respond to any questions the FASB or its staff may have concerning our comments. Please direct any questions to Aleks Zabreyko (aleks.zabreyko@connorgp.com; (650) 353-7044) or Denis Kozhevnikov (denis.kozhevnikov@connorgp.com; (650) 521-3099), partners in our Accounting Standards and Professional Practice group.

Sincerely,

Connor Group, Inc.