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Technical Director

Financial Accounting Standards Board

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The AICPA's Financial Reporting Executive Committee (FinREC) appreciates the opportunity to comment on the FASB's Proposals: 1) Conceptual Framework for Financial Reporting, *Chapter 3 - Qualitative Characteristics of Useful Financial Information*; and (2) Notes to Financial Statements – *Assessing Whether Disclosures are Material*.

Materiality Defined

FinREC supports the proposed definition of materiality. We believe that the FASB's effort is akin to a technical correction of GAAP. The proposed definition is consistent with the definition used by various U.S. regulators and the Supreme Court, and it is consistent with how we understand much of practice currently considers materiality.

However, FinREC does not support stating that materiality is a legal concept. Instead, we believe the FASB should define the term, and in the basis for conclusions describe its consistency with the Supreme Court and various U.S. regulators. We believe (consistent with the observations of many other commenters) that the current proposal introduces unnecessary concern and uncertainty on how a CPA or financial professional might be challenged to somehow represent a level of legal expertise that they don't have. We also believe not only that it is appropriate, but within the FASB's purview to define materiality

for financial reporting purposes, which is an overarching concept for all standards issued by the FASB.

Notes to Financial Statements

FinREC supports the proposed wording in paragraph 50-7, that materiality would be applied to quantitative and qualitative disclosures individually and in the aggregate in the context of the financial statements as a whole. However, we recommend that the FASB provide more clarity around the notion of “aggregate.” For example, it is not clear whether this means only that all topically related individual immaterial disclosures are considered in the aggregate, or if it means that all individual immaterial disclosures (including those topically unrelated) must be assessed in the aggregate.

FinREC also supports the proposed wording in paragraph 50-9 that omitting a disclosure of immaterial information would not be an accounting error. We observe that some read the guidance in paragraph 50-9 in isolation and believe that if an individual disclosure is deemed immaterial, the analysis and consideration ends at that point. FinREC recommends the Board clarify, if it is indeed the Board’s intent, that an immaterial disclosure omission is not an accounting error only *after* the entity evaluates whether that item is immaterial both (a) individually, and (b) in the aggregate in the context of the financial statements as a whole.

Question 5 in the proposal asks how one would disclose information in comparative financial statements if the assessments of materiality differed in prior years. In such scenarios, FinREC discussed the pros and cons of either approach - including disclosures in both years when only one year was material or excluding disclosures in the year they were immaterial. Although a requirement to disclose immaterial information in one year solely for comparative purposes would appear to be inconsistent with the proposal, FinREC recommends the Board provide clear guidance either through specific wording in the final standard, or in an example.

Importantly, the AICPA’s Auditing Standards Board and the International Auditing and Assurance Standards Board are working to enhance auditing procedures related to note disclosures, therefore, the FASB and those Boards have an opportunity to work together to ensure a consistent understanding on how materiality should be applied to such disclosures.

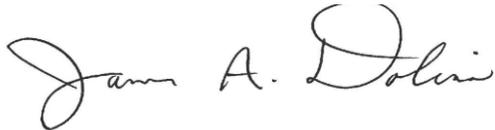
Concluding Observations

FinREC believes the proposals by themselves may not immediately change disclosure practices. But the FASB has a role to play and it should play it with optimism that mindsets might change over time, thus leading to more disclosure effectiveness.

Finally, we understand that the FASB plans to engage with constituents who do not support these proposals. We applaud that outreach and very much stand behind the stated objectives – improve disclosure effectiveness and thus improve communication of material information in financial statements.

Representatives of FinREC are available to discuss our comments with Board members or staff at their convenience.

Sincerely,

A handwritten signature in cursive script that reads "James A. Dolinar". The signature is written in black ink and is positioned below the word "Sincerely,".

James A. Dolinar

Chairman

FinREC

