AICPA® PCPS
Private Companies Practice Section

American Institute of CPAs
220 Leigh Farm Road
Durham, NC 27707-8110

December 9, 2015

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

Re: September 24, 2015 Exposure Draft of a Proposed Accounting Standards Update (ASU), ***Notes to Financial Statements (Topic 235): Assessing Whether Disclosures are Material*** **[File Reference No. 2015-310]**

Dear Ms. Cosper:

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 supports the Board's approach to assessing materiality in the notes to the financial statements and believes it is an important step toward improving the clarity and usefulness of the financial statements. The proposal also has placed more focus on assessing the qualitative, as well as the quantitative, aspects of note disclosures, which is timely in view of the standard-setting initiatives on auditing disclosures recently completed by the International Auditing and Assurance Standards Board and recently added to the agenda of the AICPA Auditing Standards Board.

As the Board acknowledged, certain barriers remain toward achieving the goal of improving note disclosures. TIC advises the Board to work with regulators and relevant standard setters to resolve any remaining issues and to understand where additional educational efforts may be necessary. TIC has also offered one suggestion to provide clarifying guidance on the statement that the omission of immaterial disclosures is not an accounting error.

SPECIFIC COMMENTS

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.*

TIC believes the proposed amendments are important because they emphasize that materiality applies to quantitative and qualitative disclosures individually and in the aggregate, thus reminding preparers and practitioners of their responsibilities with respect to the notes. In addition, the proposed changes clarify that disclosures required by U.S. GAAP can be omitted if they are immaterial. So, these are important steps toward improving the effectiveness of disclosures, irrespective of whether the proposed changes facilitate the assessment of materiality.

In the short term, the final standard may not result in an immediate, universal reduction in unnecessary note disclosures, but, if certain behavioral changes occur, it may, over time, improve disclosure overload. As discussed on page 2 of the ED, there are a number of obstacles that exist today that the Board cannot control. TIC believes there may continue to be significant obstacles in determining which disclosures are material and which disclosures are not. In addition to those stated obstacles, another concern is that assessing the qualitative implications of omitting a disclosure when determining whether or not a disclosure item is material or not, generally requires significant judgment. Therefore, some preparers may decide it would be easier to take a "disclose all" approach when preparing financial statements rather than expend the time and cost of justifying the omission of immaterial disclosures.

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?*

TIC does not foresee significant increases or decreases in the cost of preparing the notes. For many, implementation of the final standard may be cost-neutral. Most of the preparers in TIC's client base are already going through a similar assessment process with their auditors using the AICPA and SEC definitions regarding materiality, which include qualitative considerations. The proposed amendments are also somewhat more prescriptive than extant guidance, and this may help prevent significant cost fluctuations. Generally, TIC members noted that public entities take a "disclose all" approach, which is unlikely to change in the near term, and nonpublic entities are already applying the assessment process noted above. Therefore, TIC does not foresee a significant cost impact resulting from the proposed amendments.

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?*

TIC believes there will be little change in the information disclosed in the notes, but the reasons for this differ based on whether the entity in question is public or private. As noted above, public companies tend to include all required disclosures in their financial statements based on their assessment of the cost and risk associated with omitting disclosures. They want to avoid the possibility of auditors challenging whether or not a disclosure is material and the possibility of the SEC issuing a comment letter for an omitted disclosure. In addition, full disclosure will reduce what needs to be communicated to the audit committee. Full disclosure also avoids PCAOB inspection issues for registered CPA firms. Given these motives, TIC believes that this proposed standard is unlikely to change their approach in the short term.

However, TIC members who audit private companies note that, in practice today, the decision to omit an immaterial disclosure is a discussion point between the audit engagement team and the preparer based on an assessment of relevant quantitative and qualitative factors. Therefore, TIC believes that private entities are already following the proposed changes. The significant change for private entities is more likely to be a decrease in communications to those charged with governance regarding omitted, immaterial disclosures, since the omission of immaterial disclosures would not be considered an accounting error under the new guidance.

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.*

Yes, TIC believes the "often-cited obstacles" in the current system that are listed on page 2 of the introduction may persist despite the changes that the Board is proposing. To mitigate those obstacles going forward, TIC recommends that the FASB meet with representatives of the AICPA Auditing Standards Board, key regulators and other parties as deemed appropriate to determine what additional guidance, if any, those bodies may need to consider to ensure that the proposed changes will be implemented as the Board intended.

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

As indicated in the proposed ASU, material disclosures would be presented in the notes to the financial statements. In comparative statements, where a particular disclosure in one period was deemed immaterial, it would be up to the preparer to assess if the immaterial information should be presented for comparative purposes or if a simple comment that the information has been deemed immaterial in the prior period and has not been presented would suffice for users of the financial statements. This assessment should be within the confines of this proposed ASU on an entity basis, based on specific facts and circumstances, and should not be addressed by the Board in a specific ASU.

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.*

TIC strongly supports the Board's decision to remove such wording from the *Accounting Standards Codification* (ASC). The phrase "at a minimum" creates constraints within the standards when determining whether or not a disclosure is material. The removal of such terms provides greater clarity and allows preparers to assess the materiality of those disclosures and ultimately present more relevant financial information to users of financial statements by removing immaterial information that only reduced the quality of the financial statements.

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?*

TIC agrees that the omission of immaterial disclosures is not an accounting error. TIC appreciates the fact that the Board is proposing this added sentence to encourage preparers and practitioners to omit immaterial disclosures in an effort to improve the effectiveness of the financial statements.

However, this proposed amendment could create some confusion in practice. ASC paragraph 105-10-05-6 states, "The provisions of the Codification need not be applied to immaterial items." This statement implies that GAAP need not apply to immaterial items, meaning that immaterial items (assuming they are immaterial individually and in the aggregate) are not accounting errors. This proposed amendment could create an apparent inconsistency in the standards and may cause some confusion because the statement in paragraph 235-10-50-9 applies to disclosure requirements only (see paragraph BC11). TIC believes the Board needs to clarify whether immaterial omitted disclosures are the only items that would not be considered an accounting error.

Question 8: *Are there considerations other than those discussed in this proposed Update that would apply to not-for-profit entities?*

No. TIC believes the proposed ASU is written in a manner to allow not-for-profit entities to apply the qualitative analysis/assessment based on their specific and unique entity facts and circumstances.

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

Yes, the proposed ASU should be effective upon issuance because the new standard has the potential to improve the effectiveness of the notes to the financial statements. Normally, TIC recommends a minimum one-year transition period with early adoption permitted for most new standards. However, in this case, there would be no significant adverse effects in not adopting the proposed amendments in a timely manner as long as the Board performs outreach with regulators and other relevant standard setters prior to finalizing the standard to uncover any potential implementation issues.

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,

Michael A. Westervelt

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