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Financial Accounting Standards Board  
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Via email: [director@fasb.org](mailto:director@fasb.org)

**File Reference No. 2015-310 – Exposure Draft, Notes to Financial Statements (Topic 235), Assessing Whether Disclosures Are Material**

Dear Chairman Golden:

The views that I am providing are primarily focused on the impact the Exposure Draft will have on the overall effectiveness of disclosures in general and certain of the specific questions in the Exposure Draft to which you invited public comment. The background these views are based on is that of a former auditor and a current preparer with over 20 years of experience – including having the overall responsibility for the external reporting function for 3 Fortune 500 companies.

**Disclosure Effectiveness in General**

In one often-referenced Big Four study, since 1992 the average number of pages in annual reports devoted to footnotes and Management's Discussion and Analysis has quadrupled. That study further notes that if the rate of increase continues, financial statement footnote disclosures and MD&A will take up more than 500 pages in annual reports by 2032.

This disclosure overload has not happened by chance. As noted in the Exposure Draft, the current system does not promote an entity's ability to omit immaterial disclosures due to a wide range of often-cited reasons, not limited to the following:

1. The requirement for the external auditors to communicate omissions of disclosures as errors to audit committees;
2. Litigation concerns;
3. Possible internal control changes required to support discretion in the preparation of information provided in disclosures; and
4. The concern about possible U.S. Securities and Exchange Commission (SEC) staff comment letters about omitted disclosures.

Other studies and broad surveys have suggested that the majority of responding preparers included disclosures that are otherwise believed to be immaterial due to concerns over potential objection by (1) SEC or other regulators and (2) external auditors.

Because of the above and other reasons, it is often less time consuming for the preparer to include disclosures that they feel are not material than to debate whether the "required" information is truly required given the pre-existing statement in ASC 105, which stipulates that provisions of the Accounting Standards Codification need not be applied to immaterial items. I believe that this statement currently applies and has always applied to ALL provisions of the Accounting Standards Codification, including the over 400 pages dedicated to disclosures.

As preparers, we must constantly assess the overall mix of disclosure in our attempt to “cut through the noise” of required disclosures and provide information that is useful to investors. This is extremely difficult given the current environment in which one must weigh the numerous risks or concerns noted above versus the benefits to the financial statement users of providing more clear and concise disclosures. Too often, we find ourselves as preparers taking the simpler path, that of including the otherwise immaterial disclosures, as there is no apparent benefit to the preparer for providing more clear and concise disclosures.

I believe that certain of the amendments to Topic 235 contained in the proposed Update are not necessary because they duplicate the provisions of 105-10-05-06, which states that “The provisions of the Codification need not be applied to immaterial items.” Notwithstanding the previous statement, I do believe that including the following specific provisions in the Codification would generally be helpful for preparers:

1. State that materiality is applied to quantitative and qualitative disclosures individually and in the aggregate in the context of the financial statements taken as a whole; therefore, some, all, or none of the requirements in a disclosure Section may be material;
2. Refer to materiality as a legal concept; and
3. State specifically that an omission of immaterial information is not an accounting error.

I believe this would be helpful to avoid the concerns noted above, as it provides the preparer greater support for excluding otherwise immaterial disclosures when faced with opposition.

#### **Specific Questions Raised in the Exposure Draft**

**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.

Yes, aligning materiality statements between the Supreme Court decisions and the Codification by creating one standard would make such assessments easier.

There are a number of reasons for this conclusion; however, the most prominent is that the current description in Concepts Statement No. 8 contains a threshold identified as “could”, which conflicts with the “substantial likelihood” standard set forth by the Supreme Court. This is similar in nature to a reasonably possible threshold versus a probable threshold, in which current GAAP has very different requirements. Such a broad difference creates confusion when attempting to assess materiality. Including a statement in the Codification that stipulates materiality as being a legal concept will eliminate any confusion as to which standard should be applied.

I do not believe; however, that this will eliminate confusion regarding the application of the concept of materiality. Specific areas over which I would continue to have concerns after such inclusion would be:

- Application of materiality to “reclassifications” versus “adjustments that impact income”;
- Balance sheet materiality versus income statement materiality;

- Application of materiality to potential disclosures when regulators' speeches describe that as an area of focus for future comments;
- Application of materiality to potential disclosures when audit firms note in their "trends in SEC comment letters" guidance (generally annual) indicates a certain area is likely to receive comment; and
- Conclusion over whether a quantitatively material misstatement can be considered qualitatively immaterial based on its context.

**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?

Yes, applying the amendments in the proposed Update should reduce the costs of preparing the notes to the financial statements, as it will reduce the extra time and effort dedicated to ongoing debates over whether an omitted immaterial disclosure that is listed as "required" per the Codification was ever truly required in the first place.

However, I believe it is likely that this debate will simply move to a different forum, the management representation letter.

**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?

Yes, in general, there are some disclosures that seep into the financial statements that a preparer has only included as a result of past auditor comments, prior SEC comment letter responses, or previous internal discussions. These amendments should force preparers to give more thought to whether a disclosure is required in the context of the financial statements and footnotes taken as a whole.

All too often the evaluation process becomes one of expedience over that of providing valuable disclosure. Simply put, it is much more difficult and time consuming for a preparer to draft clear and concise disclosures than it is to just carry forward a previous disclosure. Carefully considering each disclosure is particularly time consuming and does not happen as often as it should. These amendments should cause preparers to rethink their disclosures with a mindset focused on ensuring the disclosures provide a clear and concise message to financial statement users, while not overloading them with immaterial or impertinent information that would not otherwise influence or enhance their decision-making.

**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, I believe that preparers currently take a broader view of materiality with respect to disclosures than do other parties. This is often due to a "checklist approach" to disclosure taken by such other parties. This checklist mentality has seeped into financial statement disclosures and has made it more difficult for preparers to apply judgment to disclosures.

A simple example of this difficulty is illustrated by the company's internal control procedures. Typically, a company's disclosure control procedures contain an internal control that requires the review and completion of the "Disclosure Checklist" as provided by its auditor. Such a control often requires that any omitted disclosures be explained or supported in some manner (i.e., a memo). While a preparer may conclude the disclosure is not necessary after assessing materiality and other factors, they will often further conclude that the process of documenting the omission in such a way as to avoid any control deficiencies and having discussions with the auditors, and potentially with the audit committee, to support their conclusions is more arduous and time-consuming than it would be to simply include the unnecessary disclosures.

I expect that this will continue to be a challenge, the amendments in the proposed Update notwithstanding.

**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.

Yes, given the need for the amendments in this proposed Update is that the current general statement in ASC105 is not deemed to be specific enough to allow preparers to exclude immaterial disclosures. I believe the inclusion of phrases such as "an entity shall at a minimum provide" seemingly conflicts with the amendments in this proposed Update and would continue to cause confusion among preparers and angst among auditors.

**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?

Yes, similar to the response in question 2, I believe that applying the amendment in the proposed Update explicitly stating that the omission of an immaterial required disclosure is not an accounting error would reduce the costs of preparing the notes to the financial statements, as it will reduce the extra time and effort dedicated to ongoing debates over whether an omitted immaterial disclosure that is listed as "required" per the Codification was ever truly required in the first place.

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

Yes, I believe that increasing disclosure effectiveness while minimizing disclosure overload is among the most significant difficulties financial statement preparers currently face and the amendments in the proposed Update are a necessary step in the improvement process.

### **Conclusion**

I appreciate the work the Board is undertaking in its effort to clarify and simplify accounting standards. Continuing this effort at simplification of the standards of disclosure is especially critical, and I believe

the proposed amendments are a strong and necessary first step in combating disclosure overload while at the same time increasing the effectiveness of the disclosures that preparers make.

However, I believe that there are still many steps to be taken before we can claim victory in this battle. Such steps include, among others: (1) alignment between SEC and GAAP disclosure regimes; (2) enhancing the ability to cross-reference within sections of a publicly-filed document or to other public-filed documents; (3) the overall disclosure approach technologically; (4) whether it is necessary to repeat certain disclosures every year, or only when they change – and where the “boilerplate” disclosures would be disclosed.

I truly appreciate the ability to provide comment and the efforts the Board is making to simplify our accounting standards and disclosure regime.

Sincerely,

Michael F. Winterscheidt