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December 8, 2015

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

Re: File Reference Nos. 2015-300 and 2015-310

Dear Ms. Cosper:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the FASB's recent exposure drafts related to the definition of materiality in the conceptual framework and the application of that concept to the notes to financial statements:

- Proposed Accounting Standards Update – *Notes to Financial Statements (Topic 235): Assessing Whether Disclosures Are Material*
- Proposed Amendments to Statement of Financial Accounting Concepts, *Conceptual Framework for Financial Reporting, Chapter 3: Qualitative Characteristics of Useful Financial Information*

We support the Board's overall objective in the Disclosure Framework project to make financial statement disclosures more effective, balancing the information needs of financial statement users with the costs and complexity of producing that information. Because our primary role with respect to financial reporting is that of independent auditor, we have focused our response from that perspective.

We are broadly supportive of the Board's proposals in these two exposure drafts, subject to our recommendations in the penultimate paragraph of this letter and as further described in the appendices. To give context to our specific comments, we believe it is helpful to first provide some background on the role of materiality in financial reporting.

Materiality is (and has been) a pervasive concept in financial reporting since the inception of general purpose financial reporting, both for preparers, as they consider the application of accounting and disclosure standards to their financial statements, and for auditors, as they assess whether the financial statements present fairly, in all material respects, a company's results of operations and financial position in accordance with generally accepted accounting principles. Prior to the codification of the FASB's standards, each FASB statement contained a legend (the so-called "materiality box") that read, "The provisions of this standard need not be applied to immaterial items." That language has subsequently been codified in ASC 105-10-05-6. However, an authoritative definition of materiality was never codified by the FASB in its authoritative literature. Instead, it is only described as a relevant concept for financial reporting in the conceptual framework.

We understand the Board's intent with respect to clarifying the description of materiality in the Conceptual Framework is essentially to conform that description to the definition that is applied in practice today by reference to SEC guidance and PCAOB auditing standards. Both of these organizations have drawn on US Supreme Court case law in articulating materiality as follows: "information is material if there is a substantial likelihood that the omitted or misstated item would have been viewed by a

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reasonable resource provider as having significantly altered the total mix of information."[1,2] We believe that clarifying the concept of materiality in US GAAP and aligning it with the SEC and PCAOB definitions will be beneficial to all stakeholders.

Materiality is also a key element to achieving the Board's objective of enabling preparers to exercise discretion in assessing the disclosure requirements in US GAAP in the context of their financial statements. In that regard, we support the FASB's explicit reference to the applicability of materiality to disclosures in the proposed amendments to ASC Topic 235.

However, as discussed more fully described in the appendices to this letter, given the Board's decision to more explicitly reference materiality in the codification, specifically in ASC Topic 235, and the new guidance that states that the omission of an immaterial disclosure is not an error, we believe constituents would be better served if the Board included the US Supreme Court definition of materiality in the codification. We note that the Board had originally decided on this approach, as discussed in BC14 of the exposure draft on ASC Topic 235, and ultimately rejected it on the basis that the Board does not promulgate a definition of materiality. We agree that the current authoritative reference on materiality is the US Supreme Court definition, which the FASB cannot change. However, we also believe that, notwithstanding its legal underpinnings, it is a concept that can be effectively applied in the context of financial reporting by preparers and auditors. We also believe including the US Supreme Court's definition in the codification, rather than referring to materiality generally as a legal concept, will reduce potential ambiguity and confusion regarding how materiality should be defined.

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The appendices to this letter contain our responses to the Proposed Amendment (Appendix A) and the Questions for Respondents in the Proposed Accounting Standards Update (Appendix B) that are applicable to us in our role as auditors and expands on our comments above. If you have any questions, please contact Patrick Durbin at (973) 236-5152, Beth Paul at (973) 236-7270, or Bud Swartz at (973) 236-4172.

Sincerely,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

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[1] SEC Staff Accounting Bulletins - Topic 1, *Financial Statements*, Item M, *Materiality*
[2] PCAOB Auditing Standard No. 11 - *Consideration of materiality in planning and performing an audit*, paragraph 2

Appendix A

Proposed Amendments to Statement of Financial Accounting Concepts: *Conceptual Framework for Financial Reporting, Chapter 3: Qualitative Characteristics of Useful Financial Information*

Question: Do the proposed amendments improve Concepts Statement 8? If so, how? If not, why?

We support the Board's objective of driving consistency between ASC Topic 235, the Conceptual Framework, and the US Supreme Court's definition of materiality. We believe aligning ASC Topic 235 and Concept Statement 8 with the US Supreme Court's definition of materiality would remove uncertainty in interpretation that may exist due to having a different definition in the Conceptual Framework.

Given that the Board's objective was to avoid uncertainty, as noted in BC3.18B of the proposed amendment, we believe the US Supreme Court's definition should be included in the codification and that the language that observes that the legal concept could change over time should be removed. Language that suggests that the definition is dynamic could cause ambiguity. Preparers may be unsure which jurisdictions' laws to consider and what definition to apply. As a result, the proposed language could suggest a need to evaluate the entire body of relevant law each time a materiality decision needs to be made, which we do not believe was the Board's intent.

We also observe that the Supreme Court's definition is referred to by both the SEC (in Staff Accounting Bulletin Topic 1-M, *Financial Statements - Materiality*) as well as the PCAOB (in Auditing Standard No. 11 – *Consideration of Materiality in Planning and Performing and Audit).* Given the pervasive references to and application of the Supreme Court's definition in practice currently, we believe aligning Concept Statement 8 with this definition would be beneficial to all stakeholders.

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Appendix B

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 support the Board's efforts to improve the effectiveness of disclosures in financial statements and the corresponding changes proposed to paragraphs 235-10-50-7 through 50-8. We believe the proposed changes were intended to codify how the existing standards are currently being applied. Accordingly, we believe the proposed amendments will be neither easier nor more difficult as compared to current practice.

As discussed in our cover letter, we believe the goal of clarifying the definition of materiality would be better served if the Board used the US Supreme Court definition. We believe that referring to materiality only as a legal concept could lead to confusion as to what definition should be followed, including confusion related to which jurisdictions' laws to consider. The Board has included the US Supreme Court definition of materiality in the proposed amendments to Chapter 3 of Concepts Statement 8. We believe the FASB's original decision, as discussed in BC 14, to include this same definition in ASC Topic 235, or elsewhere in the codification, would be beneficial to all stakeholders. Financial statement users would also understand what materiality definition a company applied when evaluating its disclosures.

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.

We believe aligning ASC Topic 235 and Concept Statement 8 with the US Supreme Court's definition of materiality would remove any uncertainty in interpretation that may exist due to having a different definition in the Conceptual Framework. However, language that suggests that the definition is dynamic could cause ambiguity for preparers as to what standard they should apply. Therefore, as noted in our response to Question 1, we believe that the US Supreme Court definition should also be included in the codification. If materiality is referred to only as a legal concept, the resulting confusion could have legal, regulatory, and/or audit consequences.

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

As disclosures are only required for material information, we believe a company would only be required to include the information for the period(s) that the information was material even in comparative financial statements. However, we do not believe a company would be prohibited from including immaterial information for comparative periods.

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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 eliminating 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. We believe that this supports the Board's intent to clarify that entities have flexibility to determine what information is material for disclosure in their 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?

We agree with the proposed amendment to explicitly state that the omission of an immaterial required disclosure is not an accounting error. We believe that if a preparer has appropriately considered the relevant disclosure requirements and determined that a particular disclosure is not required because either the condition is not present or the disclosure is deemed immaterial to the financial statements taken as a whole (after considering both quantitative and qualitative factors), the omitted disclosure is not an accounting error.

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

We believe that the proposed Update would be equally applicable to not-for-profit entities. We are unaware of any additional considerations that would apply to not-for-profit entities.

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

We are supportive of the proposed amendments becoming effective upon issuance because they generally clarify what we understand to be existing practice, and do not require reporting entities to prepare or disclose any new information. We also note that an exercise to evaluate existing disclosures in order to remove information that is ultimately assessed as being immaterial can be conducted over time and need not be completed as of the effective date as there is no prohibition against continuing to disclose immaterial information.