



LETTER OF COMMENT NO. 13

March 23, 2007

Director, TA&I – FSP
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Proposed FASB Staff Position No. FAS 154-a

Dear Director:

This letter is in response to the proposed FSP, “Considering the Effects of Prior-Year Misstatements When Quantifying Misstatements in Current-Year Financial Statements.” While I have a few comments on the proposed FSP, my greater concern is with how the FASB handles materiality in the application of its standards in general.

With respect to the proposal, I note that the Board’s guidelines for FASB Staff Positions indicate that they are intended to provide “more timely and consistent communication about the application of FASB literature.” Also, “At the direction of the Board, the FASB staff also may use FSPs to make narrow and limited revisions to Statements or Interpretations that would have previously been made through Technical Bulletins.” However, rather than being specifically related to any FASB literature, this proposal would require the application of an SEC rule on materiality to non-public companies.

In an environment of ever increasing specificity of accounting rules, I question whether this action is either necessary or appropriate. The SEC guidance is reasonable and it was apparently needed given concerns about inconsistent treatment of “immaterial” misstatements by registrants and their auditors. However, I am not aware of a groundswell of concern over this matter among non-public companies or their auditors. It will just add to the

list of rules that those companies must follow and may even encourage more of them to discontinue the use of GAAP in their financial statements when the cost of applying this FSP is brought to their attention. And, of course, peer reviewers of the audit firms in question will have to be even more diligent with respect to smaller items.

Assuming that the Board is aware of a demand for this FSP, it is not objectionable. However, if that is not the case, I suggest you consider withdrawing the proposal.

With respect to my more important point, I have been troubled for several years about the Board's materiality box in its standards. As explained further in the attached correspondence, I believe Staff Accounting Bulletin 99 misinterpreted the intent of the materiality box. Given the recent concerns about "getting everything in financial statements precisely right," I believe it is now even more important that the Board make its intent clear. That would be a topic that would certainly qualify for a FASB Staff Position given your guidelines. And I believe it would be much more useful to the financial reporting community than proposal 154-a.

Sincerely,

Dennis R. Beresford
Ernst & Young Executive Professor of Accounting

Attachments



The University of Georgia

Terry College of Business
J.M. Tull School of Accounting

November 29, 2005

Mr. Scott Taub
Acting Chief Accountant
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

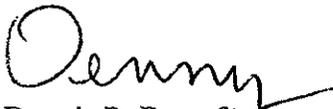
Dear Scott:

I was told that when you spoke at the Financial Executives conference in New York the week before last you mentioned that you disagreed with something I said about the FASB's "materiality box" and its relationship to SAB 99. For your information, I'm attaching copies of my correspondence that explains my thinking on this matter. After Don Nicolaisen received my letter in 2004, he had a couple of the Professional Accounting Fellows call me to talk through my concern about footnote 28 in the SAB as well as other matters related to the revised SAB that was then (and still is) in process.

This is obviously not the world's biggest deal (given that it relates to materiality it certainly shouldn't be). However, I really hope that the SEC's new guidance on materiality will "correct" what I continue to believe is an error. I certainly don't condone a company doing something like fabricating revenue under the guise that it falls below some notion of materiality. However, I also feel that the practical relief that the FASB gives companies in the standard materiality box is important in allowing companies to make cost benefit decisions about whether they have to apply certain costly accounting rules for very unimportant transactions.

By the way, congratulations on your recent "battlefield promotion" and keep up the great work.

Sincerely,



Dennis R. Beresford
Ernst & Young Executive Professor of Accounting

Copy: Robert H. Herz



The University of Georgia

Terry College of Business
J.M. Tull School of Accounting

June 29, 2004

Mr. Donald T. Nicolaisen
Chief Accountant
U. S. Securities and Exchange Commission
450 Fifth Street, N. W.
Washington, D. C. 20549-0609

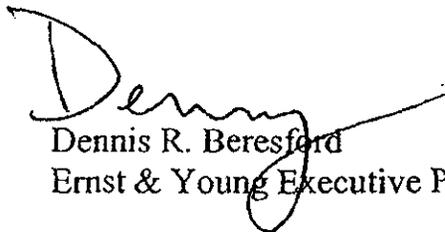
Dear Don:

I read in BNA's Corporate Accountability Report that you mentioned at the last FASAC meeting that the SEC staff is working on materiality guidance to update SAB 99. I hope you will consider the attached correspondence related to the standard "materiality box" included in all FASB standards as part of that review. Neither the FASB nor the SEC has addressed what I believe is an error in SAB 99 as noted in this correspondence.

Let me know if you have any questions about this.

Best wishes.

Sincerely,



Dennis R. Beresford
Ernst & Young Executive Professor of Accounting

Financial Accounting Standards Board

401 Merritt 7, P.O. Box 5116, Norwalk, Connecticut 06856-5116 | 203-847-0700
Ext. 312
Fax: 203-847-6030



EDMUND L. JENKINS
Chairman

September 21, 1999

Mr. Dennis R. Beresford
J.M. Tull School of Accounting
University of Georgia
Athens, GA 30602-6252

Dear Denny:

We have been discussing the implications of SAB99 on the FASB "materiality box" and also have reviewed the FEI telediscussion transcript (two Board members listened to the discussion live). We are in the process of developing a response to expected inquiries and, overall, it is very consistent with your views and examples. I'll pass your letter on to those developing our response.

We haven't decided how we will communicate our views, but I'm not convinced yet that we should do so formally and issue specific guidance. Perhaps we will do an EITF staff announcement.

Thanks for your interest and ideas.

Sincerely,

A handwritten signature in cursive script, appearing to read 'Ed', with a long horizontal line extending to the right.

ELJ:mk



The University of Georgia

Terry College of Business
J.M. Tull School of Accounting

September 15, 1999

Mr. Edmund L. Jenkins
Chairman
Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06856

Dear Ed:

Shortly after its issuance I read the SEC's Staff Accounting Bulletin 99 on Materiality with great interest. I also obtained a copy of the transcript of the FEI's August 20th "telediscussion" of the new SAB. I'm sure that there will be extensive discussion of the SAB at various conferences this fall and perhaps even some further clarification or other guidance from the SEC. But there is one issue that I feel the FASB should consider. That is footnote 28 to the SAB, which states:

FASB Statements of Financial Accounting Standards ("Standards" or "Statements") generally provide that "(t)he provisions of this Statement need not be applied to immaterial items." This SAB is consistent with that provision of the Statements. In theory, this language is subject to the interpretation that the registrant is free intentionally to set forth immaterial items in financial statements in a manner that plainly would be contrary to GAAP if the misstatement were material. The staff believes that the FASB did not intend this result.

The transcript of the telediscussion covers this in the following words. (No doubt at least a few words have been garbled in the transcript.)

LIVINGSTON: Well let me - let me ask some more. The - what about the fact that the, you know, the - the FASB and every financial - every standard that comes out from the FASB there's this standard box

at the end of the of the statement that says that this - this standard is not to be you know not meant to apply to...immaterial items. And so now - now what do we do? Are we - have we changed that? Does this - does this impact that? I mean it - right not it's not GAAP. I mean you are in compliance with GAAP if you don't apply the standards to immaterial items.

Do you - are we now we - we kind of overriding the - the exception box there?

TURNER: I think that's probably the best and hardest question would come now. The - the whole SAB and it's one that we've struggled with and as you know it's a question we went back to CCR on and - and got the letter from CCR. As I recall what's in the SAB is consistent with CCR and that is we all agreed that if people are out there intentionally moving numbers around for something like this, then it's a problem and that's where the SAB is crafted to follow the CCR language. The board, and we also had discussions with individual members of the board as we were drafting it, never intended that box to turn around and say you could use that box to make these errors for this type of purpose that - that we're focusing in on here. On the other hand, the box, a good example, as we all know we've probably got beaucoup leases out there that under FAS 13. Xerox you know we know they'd all - all capitalize...

TURNER: ...and - and yet the box clearly is intended to apply to those Xerox things and say if they're that small you don't have to capitalize them and it's immaterial, let's get on with life. And again, that's business as usual.

As noted, the text of the SAB states that the SEC staff believes that the FASB never intended a certain interpretation of the materiality box. And Lynn Turner's statement in the telediscussion repeated that understanding along with a comment that the SEC had had discussions with individual Board members about this matter during the development of the SAB.

My concern about this matter is twofold. First, I'm still not clear how the SEC now intends that the materiality box should be interpreted. Second, I don't necessarily agree with what I think is the SEC staff's understanding of what the FASB intends when it includes the standard materiality box.

Use of the materiality box began, of course, long before I joined the Board. I am not aware of its “legislative history” although it would be interesting to see if anything can be found in the FASB’s early project files that discusses this matter. During my time at the Board we never debated the intent of the box as far as I can recall. The materiality box was simply added to the text of each document as part of the production process.

Of course, the general subject of materiality was discussed on several occasions, usually in the context of providing quantitative guidelines for some accounting or disclosure item (e.g., segment disclosures) or when the Board was asked to make an explicit materiality exception. For example, in my last few years at the Board we considered specific materiality exceptions for stock option disclosures (paragraph 244 of Statement 123) and dual earnings per share presentations (paragraph 132 of Statement 128). In both of these cases the Board chose not to specify materiality exceptions but it made reference to the materiality box for guidance.

The SEC now seems to be saying that the Board couldn’t possibly have meant that companies could purposely account for or disclosure accounting events or transactions contrary to the letter of a Statement. I simply don’t agree with that conclusion although my main concern is that the FASB shouldn’t keep repeating the materiality box in each Statement unless there is a clear understanding and communication of what it means. Let me try to articulate what I think the Board intended in the materiality box.

Each accounting standard establishes generally accepted accounting principles. In short, the standard tells reporting companies and other interested parties how to “do it right.” However, practicality is important in addition to theoretical purity and the FASB recognizes that the cost of applying an accounting standard shouldn’t exceed its benefit.

Standards differ in their degree of specificity but many of them contain considerable detail. At the same time, most standards are introduced with a general objective that provides the overall framework for the details that follow. I would expect that companies normally would account for all transactions at least in accordance with the general objective of each standard. But they might ignore certain details if the difficulty and cost of literal application is high and the effect of non-compliance is inconsequential. For example, where the interest method of amortization is

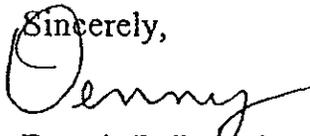
specified for a financial asset or liability the straight-line method might be used for simplicity when the effect is inconsequential.

On the other hand, even the general objective of a standard can be ignored if the overall effect is inconsequential. When we were debating other post-employment benefits, I recall one conversation where someone asked whether a large company would have to comply with Statement 106, including obtaining actuarial studies, etc., if the only plan it had was for a limited number of senior officers. I believe that the consensus answer was "of course not, that would be covered by the materiality box." The same answer would seem to apply to a stock option plan that covers a relatively small number of shares for a few officers.

I recognize that I have used the term "inconsequential" in each of the last two paragraphs as a notion of a very small quantitative effect. Some may feel that this needs to be defined and only effects of less than a percent or two would be permissible for such a materiality exception. I feel that it is more important that the matter in question be one where a company adopts a policy for a small dollar effect item and then follows that policy consistently. For example, it wouldn't be acceptable for a company to expense capital expenditures of less than, say, \$ 5,000 for practical reasons and then capitalize a bunch of them in a year in order to meet an earnings target.

This may be an area where a number of illustrations need to be developed and discussed by the Board and staff to ensure that there is a meeting of the minds. I hope, however, that the Board will be able to find a relatively straight forward way of describing in narrative form what it intends by the materiality box. If it hasn't done so already, I urge the Board to consider this matter formally and issue guidance before the end of 1999.

Sincerely,



Dennis R. Beresford
Executive Professor of Accounting

Copy: Timothy S. Lucas
Lynn E. Turner
Jane B. Adams