November 23, 2015

Technical Director
File Reference No. 2015-300
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Proposed Amendments to Statement of Financial Accounting Concepts

Dear Director:

This letter represents my comments on the Proposed Amendments of Financial Accounting Concepts - Chapter 3: Qualitative Characteristics of Useful Financial Information (ED). More specifically the ED represents a modification of the definition of materiality in Concepts Statement 8. I agree with the proposal and support its adoption.

The principal purpose of the ED is to adopt language clarifying that materiality is a legal concept. Further, the proposal notes that materiality determinations tend to be entity and situation specific. I do not object to that reasoning although simply stating that materiality is a legal concept is not likely to assist in making real world practice decisions.

On the other hand, the proposal adds the following useful language: "Currently, the Board observes that the U.S. Supreme Court's definition of materiality, in the context of the antifraud provisions of the U.S. securities laws, generally states that information is material if there is a substantial likelihood that the omitted or misstated item would have been viewed by a reasonable resource provider as
having significantly altered the total mix of information." That compares to wording in existing Concepts Statement 8: "Information is material if omitting it or misstating it could influence decision that users make on the basis of the financial information of a specific reporting entity."

The change from "would" vs. "could" language is important. As I noted in a recent comment letter to the IASB on its proposed Practice Statement on materiality, the word "could" indicates a state of "conditional possibility." Saying it another way, an online thesaurus gave "might," "possibly will," and "may perhaps" as some of the synonyms for "could." At the extreme, almost anything "could" happen. And in the context of users' decisions about financial information about a specific reporting entity, that puts a nearly impossible burden on the reporting entity to somehow demonstrate that no user would find information unimportant to them.

Further, the "would" language in the new FASB ED represents a return to the general language and approach from the original FASB concepts statement: "The omission or misstatement of an item in a financial report is material if, in the light of surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item." That worked satisfactorily in practice for many years until the Board decided to revisit the definition in connection with IASB convergence several years ago. While the new language would no longer converge with the current IASB definition, I hope that the IASB will reconsider that definition in connection with its current conceptual framework project or while developing the Practice Statement. In any event, it is appropriate for the FASB to make this change in order to conform to U.S. legal and practice considerations.

Sincerely,

[Signature]
Dennis R. Beresford
Executive in Residence