Dear Ms. Cosper:

RSM US LLP (formerly McGladrey LLP) is pleased to comment on the Proposed Accounting Standards Update (ASU), Notes to Financial Statements (Topic 235): Assessing Whether Disclosures Are Material (the "proposed ASU").

Overall, we are supportive of the Board's efforts to improve the effectiveness of disclosures in the notes to the financial statements, and we believe that the proposed ASU represents an important step in acknowledging the role of materiality in disclosures. We are unsure, however, whether the proposed ASU will achieve its desired results. The proposed ASU refers to a general lack of awareness of the statement in Accounting Standards Codification (ASC) Topic 105, Generally Accepted Accounting Principles, that the provisions of the Codification need not be applied to immaterial items. The proposed ASU also notes that uncertainty exists as to whether that statement applies to disclosures.

While we acknowledge the existence of the lack of awareness and the uncertainty, and the corresponding impact on level of disclosures, we believe that a more significant factor that discourages entities from omitting disclosures is the exercise of caution by those entities (including their counsel and auditors) as to which disclosures should be made and which can be omitted.

We believe that certain proposals included in the proposed ASU would represent substantive improvements (most notably, the proposed elimination of "minimum" disclosures language). We also do not object to the use of the proposed legal definition; however, to improve access to the legal definition, we recommend that the Board include the second through the fourth sentences of the proposed amendment to QC 11 in paragraph 235-10-50-8.

Provided below for your consideration are our responses to the "Questions for Respondents" on which specific comment was requested.
Responses to Questions for Respondents

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.

While the addition of paragraphs 235-10-50-7 through 50-8 may reduce some of the diversity in practice resulting from the lack of explicit guidance on how to assess whether disclosures are material, the principle generally utilized in making the assessments currently is consistent with the new guidance and, therefore, we would not expect it to be easier under the proposal than it is under existing GAAP.

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?

We believe that application of the proposal would initially result in increased costs related to internal control over financial reporting, as entities implement new procedures to identify which disclosures should be made and which can be omitted, and as auditors perform initial assessments of the design and operating effectiveness of those new controls. However we believe that a significant portion of that increase would result from initial application, and we would expect that, over time, there will be a corresponding reduction in costs once those new procedures have been successfully implemented and tested.

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?

We believe that, if adopted, the amendments likely would result in a reduction of disclosures that are not meaningful or useful to users of financial statements.

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.

From the perspective of an auditor, we would not expect any consequences to arise in an entity's ability to consider materiality when selecting information to be disclosed other than in those instances where it is particularly a "close call". In those situations an entity would need to provide documentation supporting their considerations and then the auditors will be required to evaluate the appropriateness of management's assessment. We could envision situations in which an entity would default to including disclosures they believe are immaterial in order to reduce the time and costs of supporting the omission of the disclosure. We would expect similar responses to regulatory or legal considerations.
Question 5: How would you disclose information in comparative financial statements if your assessments of materiality differed in different years?

We believe that in this situation, one should look to relevance in the most recent years, and in particular the current year. If something is material in the current year, it should be disclosed. If something was material in the prior year, but is not material in the current year, an entity would need to assess the significance of the disclosure and the impact on the user's ability to understand the current trends, financial position or financial performance of the entity. As the period in which the disclosure was material recedes further into the past, the entity should reassess the materiality of the disclosure, giving consideration to the relevance of the disclosure in the current year.

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 agree with the proposal to eliminate phrases like “an entity shall at a minimum provide” and similar wording.

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 this proposed amendment. We believe it clarifies the position that many feel has always been in place, that the provisions of FASB standards need not be applied to immaterial items.

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

We do not believe that there are additional considerations that would apply to not-for-profit entities.

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

We agree that the proposed amendments should be effective upon issuance.

We appreciate this opportunity to provide feedback on the proposed ASU and would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions to Rick Day at 563.888.4017 or Richard Stuart at 203.905.5027.

Sincerely,

RSM US LLP