

## Heads Up

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## Redefining Moment

# FASB's Proposed ASU States That Omissions of Immaterial Disclosures Are Not Accounting Errors

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### Introduction

On September 24, 2015, the FASB issued a [proposed ASU](#)<sup>1</sup> that would amend the *FASB Accounting Standards Codification* (the "Codification") to indicate that the omission of disclosures about immaterial information is not an accounting error. The proposal, which is part of the FASB's disclosure effectiveness initiative, notes that materiality is a legal concept that shall be applied to assess quantitative and qualitative disclosures individually and in the aggregate in the context of the financial statements taken as a whole.

To maintain consistency with the proposed ASU (and current practice), the FASB is also [proposing to modify](#) the current definition of materiality in Concepts Statement 8.<sup>2</sup> The proposed amendment would replace the original discussion of materiality in Concepts Statement 8 with the U.S. Supreme Court's definition.

Comments on the proposed ASU are due by December 8, 2015.

### Background and Key Provisions of the Proposed ASU

Currently, failure to provide required disclosures on the basis of materiality concerns is considered an accounting error. While such an error may not result in a misstatement of the financial statements as a whole, some believed that unless the error was clearly trivial, it would trigger additional actions, such as discussion with an entity's audit committee. Further, some believed that because such an omission was considered an error, an entity would incur additional risks in not providing immaterial disclosures. In addition to lengthening the financial report, reporting immaterial disclosures have the potential of obscuring more important information. To reduce the reluctance to omit immaterial disclosures, the proposed ASU would clarify that omitting such disclosures is not an accounting error.

**Editor's Note:** The proposed clarification would only apply to disclosures in the notes. Omissions of immaterial information related to other GAAP requirements, such as recognition and measurement, would still be considered accounting errors.

<sup>1</sup> FASB Proposed Accounting Standards Update, *Assessing Whether Disclosures Are Material*.

<sup>2</sup> FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting*.

The proposal further notes that quantitative and qualitative disclosures are assessed for materiality individually and in the aggregate. Thus, when disclosure requirements are assessed, some, all, or none of the requirements in a Codification topic may be material. In addition, the proposed ASU's acknowledgment that materiality is a legal concept eliminates any potential conflict between accounting standards and law.

Constituents have also noted that wording of the disclosure requirements in the Codification may be preventing some from omitting immaterial disclosures. For example, some find phrases such as "an entity shall at a minimum provide" difficult to overcome. While the proposal did not offer explicit modifications, the FASB noted that the final standard would contain amendments to replace such prescriptive language.

### Proposed Amendments to the Conceptual Framework

Under the current definition of materiality in chapter 3 of FASB Concepts Statement 8, "[i]nformation is material if omitting it or misstating it **could** influence decisions that users make on the basis of the financial information of a specific reporting entity" (emphasis added). The proposed ASU would amend this definition to refer to the U.S. Supreme Court's definition of materiality, which states that information is material if "there is a **substantial likelihood** that the omitted or misstated disclosure **would** have been viewed by a reasonable resource provider as having significantly altered the total mix of information available in making a decision" (emphasis added).

While Concepts Statement 8 is not authoritative, the Board decided that the most effective way to avoid the potential uncertainty or confusion associated with inconsistent definitions was to (1) replace the original discussion of materiality in Concepts Statement 8 with a statement that the Supreme Court has provided a legal definition of materiality and (2) include a brief summary of that definition.

### Effective Date and Transition

The amendments in the proposed ASU would be effective upon issuance. Reporting entities may choose to apply this guidance in only the most recent year reported (prospective) or in all years presented (retrospective).

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