FASB EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: September 24, 2015
Comments Due: December 8, 2015

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Notes to Financial Statements (Topic 235)

Assessing Whether Disclosures Are Material

The Board issued this Exposure Draft to solicit public comment on a proposed Accounting Standards Update of the *FASB Accounting Standards Codification*®. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing written comments to director@fasb.org, or sending a letter to "Technical Director, File Reference No. 2015-310, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

Financial Accounting Standards Board

The *FASB Accounting Standards Codification*® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on all matters in this Exposure Draft and is requesting comments by December 8, 2015. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at Exposure Documents Open for Comment
- Emailing a written letter to director@fasb.org, File Reference No. 2015-310
- Sending written comments to "Technical Director, File Reference No. 2015-310, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

Do not send responses by fax.

All comments received are part of the FASB's public file. The FASB will make all comments publicly available by posting them to the online public reference room portion of its website.

An electronic copy of this Exposure Draft is available on the FASB's website.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

Proposed Accounting Standards Update

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Summary and Questions for Respondents

Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)?

The objective and primary focus of the disclosure framework project are to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by generally accepted accounting principles (GAAP) that is most important to users of each entity's financial statements. Achieving the objective of improving the effectiveness of notes to financial statements includes:

1. The development of a framework that promotes consistent decisions by the Board about disclosure requirements
2. The appropriate exercise of discretion by reporting entities.

The amendments in this proposed Update would promote the appropriate use of discretion by reporting entities.

The Board is issuing the amendments in this proposed Update for the following reasons:

1. Respondents to past requests for comments on other proposed Accounting Standards Updates often have stated that while certain proposed disclosures may be relevant to other entities, those disclosures do not provide relevant information in their own circumstances.
2. Respondents to the FASB Invitation to Comment, *Disclosure Framework,* and the proposed FASB Concepts Statement, *Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements,* requested that facilitating discretion and assessments of materiality be addressed in the *FASB Accounting Standards Codification®.*
3. The results of the 2013 disclosure framework field study conducted by the FASB staff indicated that:
   a. Additional explanation about how to appropriately consider materiality or entity-specific relevance in deciding which information to provide in the notes could be effective in reducing or eliminating irrelevant disclosures.
   b. A reduction in volume of immaterial information would improve the effectiveness of the notes to financial statements.

Some participants in the field study were unaware of the statement in Topic 105, Generally Accepted Accounting Principles, that provisions of the Accounting Standards Codification need not be applied to immaterial items. Others were unsure whether and, if so, how that statement applies to disclosures. Some also noted that several factors discourage reporting entities from omitting disclosures of immaterial information. The amendments in this proposed Update would address issues for which the Board has authority. They do not completely eliminate all obstacles because some of the factors cited by stakeholders are not within the Board's control.

Some of the often-cited obstacles in the current system that may affect an entity's incentive and ability to omit immaterial disclosures include:

1. The requirement to communicate omissions of immaterial disclosures as errors to audit committees
2. Litigation concerns
3. Possible internal control changes required to support discretion in the preparation of information provided in disclosures
4. Possible U.S. Securities and Exchange Commission (SEC) staff comment letters about omitted disclosures.

In particular, many participants in the field study stated that they would be reluctant to eliminate immaterial disclosures if the omission is required to be communicated to the audit committee as an error. A few stated that, in some cases, providing an immaterial disclosure would require less time and effort than defending a decision to omit it.

Another finding from the field study was that consideration of materiality usually focuses almost entirely on the magnitude of monetary amounts even though qualitative factors are important in determining materiality, especially in the context of disclosures.

The amendments to Topic 235 in this proposed Update would:

1. State that materiality is applied to quantitative and qualitative disclosures individually and in the aggregate in the context of the financial statements taken as a whole; therefore, some, all, or none of the requirements in a disclosure Section may be material
2. Refer to materiality as a legal concept
3. State specifically that an omission of immaterial information is not an accounting error.

Stakeholders also noted inconsistencies between promoting discretion and the way in which disclosure requirements are written. To be consistent with the amendments in this proposed Update, the Board is proposing to make the following changes to existing disclosure requirements in each disclosure Section within the Accounting Standards Codification:

1. Each Accounting Standards Codification Topic would state that an entity shall provide required disclosures if they are material.
2. Each disclosure Section would refer readers to Topic 235, Notes to Financial Statements, as amended by this proposed Update, for discussion of the appropriate exercise of discretion.

3. Existing phrases like “an entity shall at a minimum provide,” which may make it difficult to justify omitting immaterial disclosures, would be replaced with less prescriptive language.

To facilitate review of the amendments in this proposed Update, the changes to each disclosure Section described in the preceding paragraph have not been included in this document. However, a version of Section 718-10-50, Compensation—Stock Compensation—Overall—Disclosure, marked for possible future amendments to reflect the changes described in the preceding paragraph, has been included in Appendix A of this proposed Update. Changes similar to those in Section 718-10-50 would be made and would be part of the amendments in the final Accounting Standards Update. Additionally, Appendix B identifies a number of paragraphs within the Accounting Standards Codification that contain restrictive wording that may limit the use of discretion by reporting entities. The Board has included this list to demonstrate the issues identified and to provide stakeholders with the opportunity to identify similar language that may not have been included in this list.

Who Would Be Affected by the Amendments in This Proposed Update?

The legal concept of materiality is not limited in scope by entity type. Therefore, the amendments in this proposed Update would apply to all entities.

What Are the Main Provisions?

The main provisions of the amendments in this proposed Update are summarized as follows:

1. Materiality would be applied to quantitative and qualitative disclosures individually and in the aggregate in the context of the financial statements as a whole; therefore, some, all, or none of the requirements in a disclosure Section may be material.
2. Materiality would be identified as a legal concept.
3. Omitting a disclosure of immaterial information would not be an accounting error.

How Would the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP) and Why Would They Be an Improvement?

The amendments in this proposed Update would clarify the way materiality should be considered when assessing requirements for providing information in the notes to financial statements. The proposed amendments would not change any specific disclosure requirements. It should be noted, however, that there are currently four disclosure framework projects on the Board's agenda that may change disclosure requirements for Topic 330, Inventory; Topic 715, Compensation—Retirement Benefits; Topic 740, Income Taxes; and Topic 820, Fair Value Measurement.

The amendments in this proposed Update also would improve the effectiveness of the notes to financial statements by helping reporting entities omit immaterial information.

When Would the Amendments Be Effective?

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

Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

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.

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?

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?

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.

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

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.

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?

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

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

Amendments to the *FASB Accounting Standards Codification*®

Introduction

1. The Accounting Standards Codification is amended as described in paragraph 2. Added text is <u>underlined</u>, and deleted text is ~~struck out~~.

Amendments to Subtopic 235-10

2. Add paragraphs 235-10-50-7 through 50-9 and their related heading, with no link to a transition paragraph, as follows:

Notes to Financial Statements—Overall

Disclosure

<u>> Assessing Whether Disclosures Are Material</u>

<u>**235-10-50-7** Materiality is applied to quantitative and qualitative disclosures individually and in the aggregate in the context of the financial statements taken as a whole; therefore, some, all, or none of the requirements in a disclosure Section may be material.</u>

<u>**235-10-50-8** Materiality is a legal concept.</u>

<u>**235-10-50-9** The omission of immaterial disclosures is not an accounting error.</u>

The amendments in this proposed Update were approved for publication by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Russell G. Golden, *Chairman*
James L. Kroeker, *Vice Chairman*
Daryl E. Buck
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this proposed Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. Amendments to GAAP should result in financial information that fulfills the objective of financial reporting for both public and nonpublic entities. More specifically, paragraph OB2 of FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting—Chapter 1,* The Objective of General Purpose Financial Reporting, states that:

> The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling, or holding equity and debt instruments and providing or settling loans and other forms of credit. [Footnote reference omitted.]

BC3. One of the objectives in paragraph 35 of FASB Concepts Statement No. 4, *Objectives of Financial Reporting by Nonbusiness Organizations*, states that:

> Financial reporting by nonbusiness organizations should provide information that is useful to present and potential resource providers and other users in making rational decisions about the allocation of resources to those organizations. The information should be comprehensible to those who have a reasonable understanding of an organization's activities and are willing to study the information with reasonable diligence.

Resource providers include both those who are directly compensated for providing resources and those who are not directly and proportionately compensated.

BC4. The benefits of providing information to achieve the objectives in paragraphs BC2 and BC3 should justify the related costs. Existing and potential investors, creditors, and other resource providers benefit from improvements in financial reporting, while the costs to implement new guidance are borne directly by the entity and indirectly by existing investors. The Board's judgments on whether costs of providing information is justified by the benefits is necessarily subjective. Costs of providing additional information and benefits of receiving it can seldom, if ever, be objectively measured.

BC5. Costs that an entity could incur to determine whether an omitted disclosure is material include implementation of new control procedures and additional effort to both initially and subsequently support the decisions made when a disclosure is omitted. Preparer and auditor participants in the 2013 field study noted that those costs may be moderate. Materiality is applied to disclosures by some reporting entities that reference paragraph 105-10-05-6, which states that the Accounting Standards Codification provisions need not be applied to immaterial items. Outreach with auditors has indicated that the costs of complying with the amendments in this proposed Update, if any, would decrease significantly after the initial materiality assessment, particularly when an entity's activities are consistent over time. Additionally, the amendments in this proposed Update would alleviate some of the current costs associated with omissions of immaterial disclosure, which are noted in paragraph BC12(b) below. In any case, an election of exercising discretion is voluntary; therefore, costs may be incurred but are not imposed.

BC6. Although there could be additional costs and effort to remove immaterial disclosures, reporting entities (and, indirectly, existing investors) may reduce their costs (or offset their incremental costs) by omitting immaterial disclosure. This reduction in cost should benefit existing investors. The benefits to existing and potential resource providers justify the costs because communication would be more effective and material information would be more apparent if it was not obscured by immaterial disclosures.

Background Information

BC7. The Board added the disclosure framework project to its agenda in July 2009 with the intent of making financial statement disclosures more effective and coordinated and reducing redundant disclosures. In July 2012, the Board issued the Invitation to Comment on disclosure framework, which set forth a number of ways in which the notes to financial statements could be improved. Among other things, the Invitation to Comment described a process in which a reporting entity could identify which of a list of disclosures it should include in the notes to financial statements based on entity-specific relevance, which was very similar to materiality.

BC8. A field study in the fourth quarter of 2013 tested preparers' use of discretion when complying with disclosure requirements. Participants were given a choice of either of the following criteria to assist with applying discretion to their current notes to financial statements:

a. Materiality
b. Entity-specific relevance.

BC9. Participants using the materiality criterion were asked to apply paragraph 105-10-05-6, accompanied by a statement that materiality should be assessed for each disclosure individually and in the aggregate. A general statement consistent with the U.S. Supreme Court's definition of *materiality* also was furnished. Participants using the entity-specific relevance criterion were asked to establish a baseline assessment of cash flow prospects and provide a disclosure only if the information would materially affect users' assessments of cash flow prospects from investments in the entity.

BC10. Many participants indicated that applying either criterion was either very effective or somewhat effective in reducing or eliminating immaterial disclosures and, as a result, increased the effectiveness of their notes to financial statements. The application and general understanding of the entity-specific relevance criterion were not consistent across participants. Many participants and auditors also noted that entity-specific relevance was an interpretation of materiality or that it would result in the same outcome as materiality. Some expressed concern that the concept of entity-specific relevance could conflict with materiality, which is already well established. The Board understands the concerns raised about entity-specific relevance and, therefore, decided that materiality should be the preferred criterion.

Assessing Whether Disclosures Are Material

BC11. The amendments in this proposed Update would apply only in the context of disclosure requirements. Therefore, it would be inappropriate to apply the proposed amendments by analogy to other Sections (for example, Recognition, Other Presentation Matters, and Initial and Subsequent Measurement) within the Accounting Standards Codification.

BC12. The proposed amendments would reinforce that materiality may be used when complying with disclosure requirements and would address some of the following issues:

a. Responses to both the proposed Concepts Statement on disclosures and the Invitation to Comment on disclosures indicated that some stakeholders were not aware of the overarching principle of materiality in the Accounting Standards Codification, while others were unsure how materiality should be applied to disclosures.
b. Obstacles to omitting immaterial disclosure exist, including required auditor communications of disclosure omissions as errors to the audit committee, litigation concerns, the SEC staff's comment letters, and the possible need to change internal controls.

Additionally, some auditors stated that codifying materiality's role in assessing disclosure requirements would make an entity's exercise of discretion explicitly related to its disclosures acceptable under GAAP. The amendments in this proposed Update would assist entities in assessing materiality and reducing some of the obstacles identified by preparers.

BC13. Respondents' uncertainty about how to assess materiality related to disclosures (as mentioned in paragraph BC12) was attributed to:

a. Differing views of materiality
b. Quantitative focus
c. The perception that all disclosures mentioned in a particular Topic are required if that Topic addresses a matter that is material to the reporting entity.

The amendments in this proposed Update would address each of the issues in paragraph BC12.

Defining Materiality

BC14. The Board initially decided to:

a. Reference that the concept of materiality has been defined by the U.S. Supreme Court. The intent was to reduce the confusion potentially caused by differing views on materiality.
b. Provide the U.S. Supreme Court's definition in the context of the antifraud provisions of the U.S. securities laws. That definition can be summarized by stating that disclosures generally should be evaluated as material based on whether 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.
c. Note that the U.S. Supreme Court's definition is established by and may change from court decisions and interpretations; therefore, no single definition of materiality can be relied on to identify what may be material in every specific circumstance.

BC15. However, the Board ultimately decided that the Accounting Standards Codification only would state that materiality is a legal concept for the following reasons:

a. A legal concept may be established or changed through legislative, executive, or judicial action.
b. Although the Board observes a portion of the legal definition in one context, it does not promulgate a definition of materiality.

Quantitative and Qualitative Disclosures

BC16. Errors and omissions often are assessed on a quantitative basis in the context of an audit and other attestation services. Practice has influenced the way in which preparers view materiality judgments on disclosures. That is, preparers participating in the 2013 field study demonstrated that they were more comfortable with assessing quantitative disclosures in the notes to financial statements as compared with assessing whether a qualitative disclosure was material. In some cases, they questioned whether qualitative disclosures were eligible to be assessed on the basis of materiality. Therefore, the amendments in this proposed Update would clarify that the materiality of both quantitative and qualitative disclosures can be assessed.

Applying Materiality Individually and in the Aggregate

BC17. Some preparers consider all disclosures in a Topic to be required if a Topic relates to a material element in their entity's financial statements. The amendments in this proposed Update state that materiality should be applied to disclosures individually and in the aggregate. Therefore, preparers (as well as auditors and regulators) should be evaluating whether the disclosure is material, not the Topic itself. This is consistent with SEC Staff Accounting Bulletin Topic 1.M, *Financial Statements—Materiality.*

BC18. SAB Topic 1.M states that ". . . registrants and the auditors of their financial statements should consider each misstatement separately and the aggregate effect of all misstatements" (footnote reference omitted). SAB Topic 1.M is not limited to assessments of materiality about disclosures. SAB Topic 1.M goes on to state that "registrants and their auditors first should consider whether each misstatement is material, irrespective of its effect when combined with other misstatements." SAB Topic 1.M also states that:

> Even though a misstatement of an individual amount may not cause the financial statements taken as a whole to be materially misstated, it may nonetheless, when aggregated with other misstatements, render the financial statements taken as a whole to be materially misleading.

BC19. Similarly, both AU-C Section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Generally Accepted Auditing Standards* (which applies to private companies), and PCAOB Auditing Standard No. 14, *Evaluating Audit Results,* state that materiality should be considered individually and in the aggregate and that judgments about materiality involve both qualitative and quantitative considerations.

Omissions of Immaterial Disclosures

BC20. Field study participants and others consistently cited two obstacles to omitting immaterial disclosures—auditor objections and required communications to audit committees. A few field study participants also stated that if a particular note was not costly to prepare (for example, the accounting policy note), they would be inclined to retain the disclosure instead of incur the costs of defending to the auditor or communicating to the audit committee the removal of the disclosure.

The Board concluded that because excluding immaterial disclosures can improve the effectiveness of the financial statements, omitting an immaterial disclosure should not constitute an error.

Additional Proposals Considered by the Board

BC21. In arriving at the decisions in this proposed Update, the Board received feedback that the Accounting Standards Codification could include the guidance that the Board's role is to broadly consider relevance, not materiality; that an entity is responsible for assessing materiality; and that the Board does not define or interpret materiality. However, the Board concluded that this additional guidance was unnecessary and inappropriate for inclusion in the Accounting Standards Codification. The Board also considered including guidance that would have stated that when an entity cannot determine whether the information is material (that is, a close call), the information should be included. The Board decided not to include that additional guidance because the Board believes that such decisions are made most appropriately by preparers of financial statements in the context of the regulatory, legal, and governance environment in which they operate.

BC22. The Board considered including in the definition of materiality that an investment decision is about providing resources to an entity. The Board also considered providing the following additional guidance to describe decisions about providing resources to the entity that is consistent with Concepts Statement 8 and considers not-for-profit resource providers.

> Decisions about providing resources to the entity involve buying, selling, or holding equity and debt instruments, providing or settling loans and other forms of credit, and contributing to a not-for-profit organization.

When the Board was considering including a definition of materiality, it decided not to include the additional guidance or a reference to the type of investment decision because the definition of materiality is applied in a variety of ways other than financial reporting. Including those statements in the guidance could cause confusion among preparers about which definition to apply.

BC23. The Board considered adding the following additional guidance on how the amendments in this proposed Update would be applied to different forms of existing disclosure requirements:

a. A disclosure requirement may outline the specific components to be included in a reconciliation of an item between periods or of disaggregation of an item. Materiality should be applied to each component.
b. A disclosure requirement may limit the disclosure to significant items or events. However, materiality still should be applied.

c. A disclosure requirement may be based on a specified, quantitative threshold. In this case, materiality would not be applied to establish a higher threshold. However, decisions to omit a disclosure with thresholds using materiality would be appropriate.

However, the Board determined that this additional language may be perceived as an interpretation of materiality.

BC24. Because the Board is trying to promote the use of discretion, it wants the Accounting Standards Codification to state requirements in a way that would not impede the use of materiality in assessing whether an entity must provide disclosures. Therefore, the Board decided that the following changes should be made to the requirements in the disclosure Sections of the Accounting Standards Codification:

a. Each Topic would state that an entity should provide required disclosures if they are material.
b. Each disclosure Section would refer readers to Topic 235 on notes to financial statements, as amended by this proposed Update, for discussion of the appropriate exercise of discretion.
c. Existing phrases like "an entity shall at a minimum provide," which make it difficult to justify omitting immaterial disclosures, would be replaced with less prescriptive language.

B25. A marked version of Section 718-10-50 on stock compensation has been included in Appendix A of this proposed Update to illustrate the amendments described in paragraph BC24. Similar changes would be made to other disclosure Sections and would be a part of amendments in a final Accounting Standards Update. Appendix B identifies a number of paragraphs within the Accounting Standards Codification that contain restrictive wording that may limit the use of discretion by reporting entities. The Board has included this list to demonstrate the issue identified and provide stakeholders with the opportunity to identify similar language that may not have been included in this list.

Differences between International Financial Reporting Standards (IFRS) and the Amendments in This Proposed Update

BC26. The International Accounting Standard Board's International Accounting Standard 1, *Presentation of Financial Statements* (IAS 1), states that an entity need not provide a disclosure if the information is immaterial even if a requirement is worded in a way that appears to limit an entity's ability to omit any of the disclosures. Topic 235, as amended in this proposed Update, would state that the omission of disclosures is not an accounting error if the omitted information is immaterial, individually or in the aggregate. IAS 1 and the amendments in this proposed Update appear to be consistent even though IAS 1 makes a blanket statement about restrictive wording. (The FASB expects to remove phrases such as “disclose at a minimum” that might appear to override the materiality provisions of Topic 235.)

BC27. Paragraphs 30 and 30A of IAS 1 include the following discussions of matters that are not addressed in the amendments in this proposed Update:

> 30. If a line item is not individually **material**, it is aggregated with other items either in those statements or in the **notes**. An item that is not sufficiently material to warrant separate presentation in those statements may warrant separate presentation in the notes.
>
> 30A. An entity shall not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.

BC28. IAS 1 requires an entity to consider providing additional disclosures if necessary to enable financial statement users to understand the entity’s financial position and financial performance.

BC29. Some Topics in the Accounting Standards Codification include statements that an entity may need to disclose information beyond the requirements but that there is no overarching principle. SEC Regulation S-X, Rule 4-01, *Rules of General Application: Form, Order, and Terminology,* states that registrants have the responsibility to disclose any additional information necessary to ensure that the required statements are not misleading.

Scope

BC30. The legal concept of materiality is not limited to public registrants or any other class of reporting entities. Therefore, all entities would apply the guidance.

Effective Date and Transition

BC31. The amendments in this proposed Update would be effective upon issuance.

BC32. Because the amendments in this proposed Update would permit but not require the omission of disclosures of immaterial information, the Board decided that no transition period is necessary and that the proposed amendments may be applied only to the notes to financial statements that are applicable to the most recent year (prospectively) or to all years presented (retrospectively).

Appendix A: Flexible Disclosure Requirement Example

A1. The Board decided to propose the following changes to the disclosure guidance in the Accounting Standards Codification:

a. Each Topic would state that an entity should provide required disclosures if they are material.
b. Each disclosure Section would refer readers to Topic 235, Notes to Financial Statements, as amended by this proposed Update, for discussion of the appropriate exercise of discretion.
c. Existing phrases like "an entity shall at a minimum provide," which make it difficult to justify omitting immaterial disclosures, would be replaced with less prescriptive language.

A2. Section 718-10-50, Compensation—Stock Compensation—Overall—Disclosure, was selected to illustrate the effect of the preliminary decisions in paragraph A1. The following illustrates how disclosure requirements in individual disclosure Sections would change to promote the use of discretion and to remove language that may be perceived as overriding materiality. After considering comments on the proposed changes, the Board will consider making similar consequential amendments to disclosure Sections throughout the Accounting Standards Codification.

A3. Amend paragraphs 718-10-50-1 through 50-2 and add paragraph 718-10-50-1A, with no link to a transition paragraph, as follows:

Compensation—Stock Compensation—Overall

Disclosure

718-10-50-1 ~~An entity with one or more **share-based payment arrangements** shall disclose information~~ Entities shall provide disclosures required by this Subtopic to the extent material. The disclosure requirements that follow enable ~~enables~~ users of the financial statements to understand all of the following:

a. The nature and terms of ~~such arrangements~~**share-based payment arrangements** that existed during the period and the potential effects of those arrangements on shareholders
b. The effect of compensation cost arising from share-based payment arrangements on the income statement
c. The method of estimating the **fair value** of the goods or services received, or the fair value of the equity instruments granted (or offered to grant), during the period
d. The cash flow effects resulting from share-based payment arrangements.

This disclosure is not required for interim reporting. For interim reporting see Topic 270. See Example 9 (paragraph 718-10-55-134 through 55-137) for an illustration of this guidance.

718-10-50-1A See paragraphs 235-10-50-7 through 50-9 for additional guidance on the application of materiality to disclosure requirements.

718-10-50-2 The following list ~~indicates the minimum information needed to achieve the objectives in the preceding paragraph and~~ illustrates how the disclosure ~~requirements~~objectives in paragraph 718-10-50-1 might be satisfied. In some circumstances, an entity may need to disclose information ~~beyond the following to~~ that is not listed in the requirements because that information is material and would help achieve the disclosure objectives:

[Note: The remainder of this paragraph is not shown because it is unchanged.]

Appendix B: Restrictive Language Found in the Accounting Standards Codification

B1. Appendix A illustrates possible amendments to a disclosure requirement that indicates “the minimum information needed.” The Board has decided that such language makes it difficult to justify omitting immaterial disclosures. The following list provides a number of Subtopics in which similarly restrictive wording exists. The Board has included this list to demonstrate the issue identified and to provide stakeholders with the opportunity to identify similar language that may not have been included in this list.

Subtopic	Paragraph
205-20, Presentation of Financial Statements—Discontinued Operations	205-20-50-4A
205-30, Presentation of Financial Statements—Liquidation Basis of Accounting	205-30-50-1 through 50-2
210-20, Balance Sheet—Offsetting	210-20-50-3
250-10, Accounting Changes and Error Corrections—Overall	250-10-50-1 and 250-10-50-4
255-10, Changing Prices—Overall	255-10-50-3, 255-10-50-17, and 255-10-50-26
260-10, Earnings Per Share—Overall	260-10-50-1
275-10, Risks and Uncertainties—Overall	275-10-50-20
280-10, Segment Reporting—Overall	280-10-50-20, 280-10-50-22, 280-10-50-29, and 280-10-50-39
310-10, Receivables—Overall	310-10-50-11B, 310-10-50-15, and 310-10-50-29
320-10, Investments—Debt and Equity Securities—Overall	320-10-50-1A, 320-10-50-2, 320-10-50-5 through 50-6, and 320-10-50-8B through 50-10
323-10, Investments—Equity Method and Joint Ventures—Overall	323-10-50-3

Subtopic	Paragraph
325-20, Investments—Other—Cost Method Investments	325-20-50-1
325-30, Investments—Other—Investments in Insurance Contracts	325-30-50-4 and 325-30-50-8
340-20, Other Assets and Deferred Costs—Capitalized Advertising Costs	340-20-50-1
340-40, Other Assets and Deferred Costs—Contracts with Customers	340-40-50-1 and 340-40-50-3
360-10, Property, Plant, and Equipment—Overall	360-10-50-3
410-20, Asset Retirement and Environmental Obligations—Asset Retirement Obligations	410-20-50-1
460-10, Guarantees—Overall	460-10-50-4 and 460-10-50-8
470-20, Debt—Debt with Conversion and Other Options	470-20-50-2A and 470-20-50-4 through 50-5
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Amendments to the XBRL Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would not require changes to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Any stakeholders who believe that changes to the Taxonomy are required should provide their comments and suggested changes through ASU Taxonomy Changes provided at www.fasb.org.