CII Opposes FASB’s Plans to Change Materiality Definition

Washington, D.C. — In a December 3 letter to the Financial Accounting Standards Board (FASB), CII expresses strong objections to two FASB proposals that could eliminate valuable information from corporate financial statements.

The proposals would change the current test for materiality and allow companies to exclude details from financial statements unless exclusion would trigger anti-fraud provisions of U.S. securities laws. Currently, information must be included if it could influence financial statement users’ decisions.

The Council is concerned that such a sweeping redefinition of materiality would:

- harm the ultimate customers of financial statements by eroding quality and causing “gray area” information to simply disappear from public view; and
- increase the influence of lawyers in the preparation of financial statements, a job that traditionally has been the province of companies and their financial statement preparers.

CII’s letter also expresses disappointment with the amount of investor input preceding the proposals. The correspondence pointed out that FASB’s own investor advisory committee does not have a single representative of an institutional investor with long-term investment horizons, such as a pension fund, mutual fund complex or foundation/endowment.