



CENTER FOR CAPITAL MARKETS
COMPETITIVENESS

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August 5, 2019

Sherry Hazel
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Statement on Auditing Standards *Amendments to the Description of the Concept of Materiality* (June 5, 2019)

Dear Ms. Hazel:

The U.S. Chamber of Commerce (the “Chamber”) created the Center for Capital Markets Competitiveness (“CCMC”) appreciates the opportunity to comment on the American Institute of Certified Public Accountants (“AICPA”) Auditing Standards Board (“ASB”) Exposure Draft of a Proposed Statement on Auditing Standards *Amendments to the Description of the Concept of Materiality* (the “Proposed Amendments” or “Exposure Draft”).

The Proposed Amendments would align the materiality concepts discussed in the ASB’s *Professional Standards* with the definition of materiality used by the U.S. judicial system, the auditing standards of the Public Company Accounting Oversight Board (“PCAOB”), the U.S. Securities and Exchange Commission (“SEC”), and the Financial Accounting Standards Board (“FASB”). The CCMC strongly supports the Proposed Amendments.

The Exposure Draft provides a useful historical summary of defining materiality in the U.S. (by the U.S. Supreme Court, the FASB, the SEC, the ASB, and the PCAOB) and abroad (by the International Accounting Standards Board (“IASB”) and the International Auditing and Assurance Standards Board (“IAASB”)).¹ Importantly, in August 2018, FASB amended its Concepts Statement No. 8 to

¹ See the Exposure Draft, pages 6 to 11.

reinstate the definition of materiality that was previously in Concepts Statement No. 2 (which was superseded in 2010 by Concepts Statement No. 8). The FASB's amended definition of materiality is as follows:

*... the omission or misstatement of an item in a financial report is material if, in 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.*²

Currently, the ASB's *Professional Standards* describe materiality as follows:

*Misstatements, including omissions, are considered to be material if, individually or in the aggregate, they **could** reasonably be expected to influence economic decisions of users that are taken based on the financial statements.*³ (emphasis added)

The Proposed Amendments would change the description in the *Professional Standards* of the ASB to the following:

*Misstatements, including omissions, are considered to be material if there is a **substantial likelihood** that, individually or in the aggregate, they **would** influence the judgment of a reasonable user made based on the financial statements.*⁴ (emphasis added)

Materiality is a bedrock concept of the U.S. capital markets – both private and public. It is important that the concept of materiality be aligned among the judicial system, regulators, and standard setters in the U.S. so that all stakeholders understand and apply a common definition. Alignment avoids unnecessary complexities, confusion, and potential litigation.⁵ Alignment creates a level playing field and best serves the interests of all stakeholders, including entities, auditors, lenders, and investors.

² See the Exposure Draft, page 10. Further, SEC Staff Accounting Bulletin No. 99, *Materiality*, issued in August 1999, quotes both the glossary definition of materiality in FASB Concepts Statement No. 2 (issued in May 1980) and the 1976 U.S. Supreme Court decision in *TSC Industries, Inc. v. Northway, Inc.* (see the Exposure Draft, p. 7).

³ See the Exposure Draft, page 11.

⁴ See the Proposed Amendments, page 11.

⁵ The Exposure Draft notes that the ASB believes that the proposed definition of materiality and related conforming amendments are substantially consistent with current audit firm practices in determining and applying materiality in an audit or attest engagement (page 12). Thus, aligning the definition in AICPA *Professional Standards* will likewise eliminate this as a potential source of confusion and complexity.

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The CCMC applauds the ASB for taking this important step to align the concept of materiality in the *Professional Standards* of the AICPA with that of the judicial system, regulators, and other standard setters in the U.S.

Thank you for your consideration and we stand ready to discuss the Proposed Amendments with you further.

Sincerely,

A handwritten signature in black ink, appearing to read 'T. Quadman', with a long horizontal flourish extending to the right.

Tom Quadman