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Please provide your name.

Name: William Fleming

Please identify your organization, if applicable.

Organization: U.S. Securities and Exchange Commission

Q1. The Board proposes materiality concepts providing a discussion of users, scope, and factors to consider in the federal government environment. Refer to paragraph 1.

a. Do you agree or disagree with the proposed materiality section? Please provide the rationale for your answer.

Partially agree with the new language on materiality, with one exception: The last two sentences in proposed paragraph 191C state:

Therefore, misstatements of relatively small amounts could have a material effect on the financial statements. For example, an amount that is not quantitatively material with respect to a very large line item may be material with respect to a smaller line item.

The preceding sentences accurately state that "materiality may vary by financial statement, line item or group of line items within an entity." However, a small amount that might be material to a single immaterial line would not, because of that, somehow become material to "the financial statements" taken as a whole. The discussion on qualitative materiality adequately covers situations where quantitatively small amounts could still be material – but those two concepts should be discussed separately.

b. Do you have any suggestions that would enhance the section? The two sentences quoted above are confusing and should be deleted, for reasons stated above.

- Q2.** The Board proposes placing the materiality concepts in Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*. Refer to paragraph A14.

Do you agree or disagree with the placement within concepts and specifically in SFFAC 1? Please provide the rationale for your answer.

Disagree. Adding language to SFFAC 1, *Objectives of Federal Financial Reporting*, would add additional language on materiality to the “non-Level A GAAP” portions of FASAB issuances, but it would be silent on the relationship between the new language in SFFAC 1 and the existing language on materiality in SFFAS 1, *Accounting for Selected Assets and Liabilities* (paragraphs 12-13), and SFFAS 3, *Accounting for Inventory and Related Property*, (paragraphs 7-15),

Historically, FASAB has not amended or updated the “Introduction” paragraphs or the Appendices (such as the “Basis for Conclusions”) of SFFAS issuances, presumably because only the “Accounting Standards” sections of SFFAS issuances are considered authoritative guidance/Level A GAAP.

However, this distinction about differing levels of GAAP status for the various sections of SFFAS issuances doesn’t appear to be clearly stated anywhere in SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*, or anywhere else in the FASAB Handbook. Although there is an implied reference to this in paragraph 14 of SFFAS 3 (“accounting and reporting provisions of the Board’s recommended standards”), there is no clear indication that the Introduction sections (even though the paragraphs are numbered) and the Basis for Conclusions of SFFAS documents are not considered authoritative/Level A guidance.

Because of this, amending SFFAC 1 would be likely to cause confusion as to whether the guidance on materiality in SFFAS 1 and SFFAS 3 is still applicable, or whether that guidance is being effectively rescinded.

Recommendation:

If the Board intends to add new language on materiality to SFFAC 1, it should consider adding new language to the *Foreword* of the FASAB Handbook (see the existing “Materiality” section, page 4), in order to:

- Clearly state which sections of SFFAS documents should be considered authoritative guidance/Level A GAAP, in accordance with the GAAP hierarchy in SFFAS 34,
- Clearly state that SFFAC documents are below the level of the Level A-D GAAP hierarchy in SFFAS 34, but should take precedence over other sources of literature, and

- Explain the hierarchical relationship of (a) SFFAC documents and (b) the non-authoritative sections of SFFAS documents: which one is higher than the other, (a) or (b)?

Additional Comment:

SEC has no objections to the citation of SEC Staff Accounting Bulletin Topic 1.M in paragraph A9 of the Basis for Conclusions.