

Tulsa IMA Fall
Conference
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ACCOUNTING AND AUDITING RULEMAKING

Two Mini-case Studies

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Agenda

- About the Office of Investor Advocate
- Mini-case Study 1:
FASB and the Definition of Materiality
- Mini-case Study 2:
PCAOB's Audit Reporting Model

The Office of Investor Advocate

Core Functions

- **To Provide a Voice for Investors**
- **To Assist Retail Investors**
- **To Study Investor Behavior**
- **To Support the SEC's Investor Advisory Committee**

To Reach the Office of the Investor Advocate

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Mini-case Study 1:

FASB and the Definition of Materiality

Definitions of Materiality

FASB Concepts Statement Number 8

Information 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]

Supreme Court

“An omitted fact is material if there is a substantial likelihood that a reasonable shareholder **would consider it important** in deciding how to vote. ...

Put another way, there must be a substantial likelihood that the disclosure of the omitted fact **would have been viewed** by the reasonable investor as having significantly altered the “total mix” of information made available.”

-- *TSC Industries Inc. v. Northway Inc.*

[Emphasis added]

FASB's 2015 Proposed Update

Materiality is a legal concept. In the United States, a legal concept may be established or changed through legislative, executive, or judicial action. **The Board observes but does not promulgate definitions of materiality.**

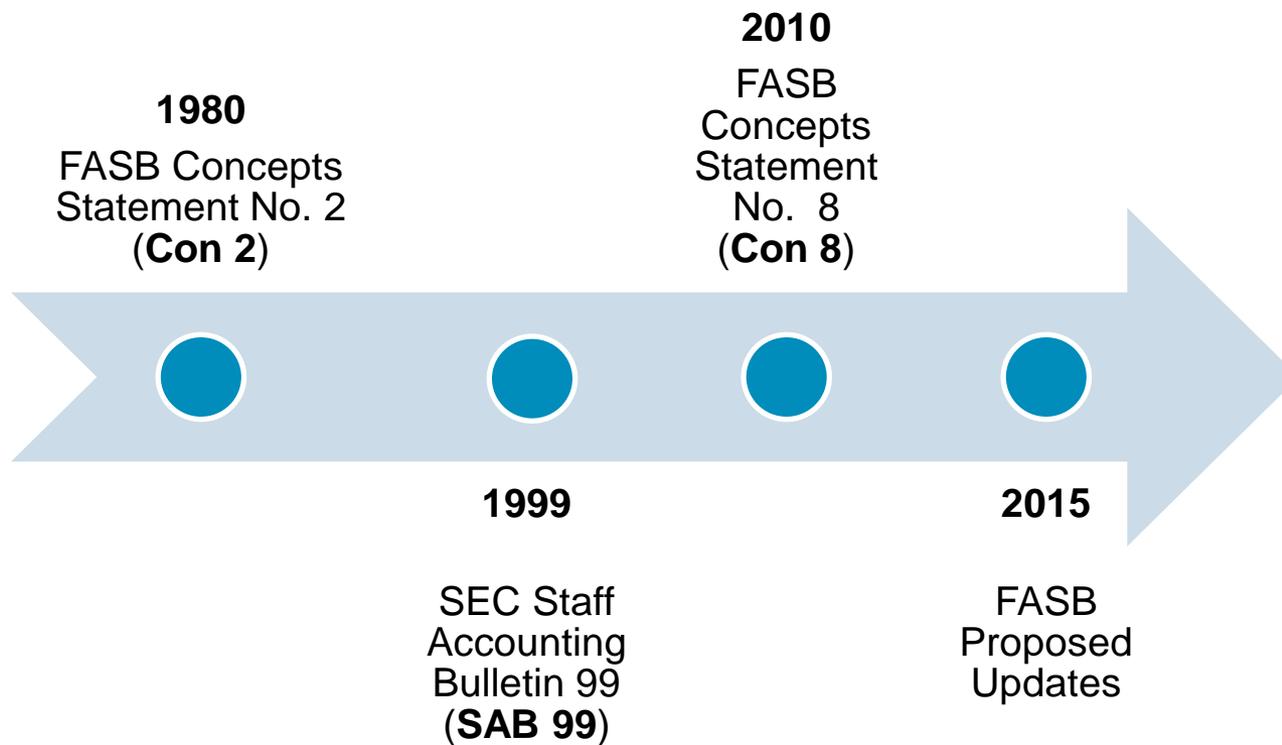
Currently, the Board observes that **the U.S. Supreme Court's definition of materiality**, in the context of the antifraud provisions of the U.S. securities laws, generally states that information is material if there is a substantial likelihood that the omitted or misstated item **would have been viewed** by a reasonable resource provider as having significantly altered the total mix of information.

[Emphasis added.]

Source: FASB, Proposed Amendments to Statement of Financial Accounting Concepts No. 8, Chapter 3, supra note 5, at 5 (BC3.18B).

Fundamental Questions

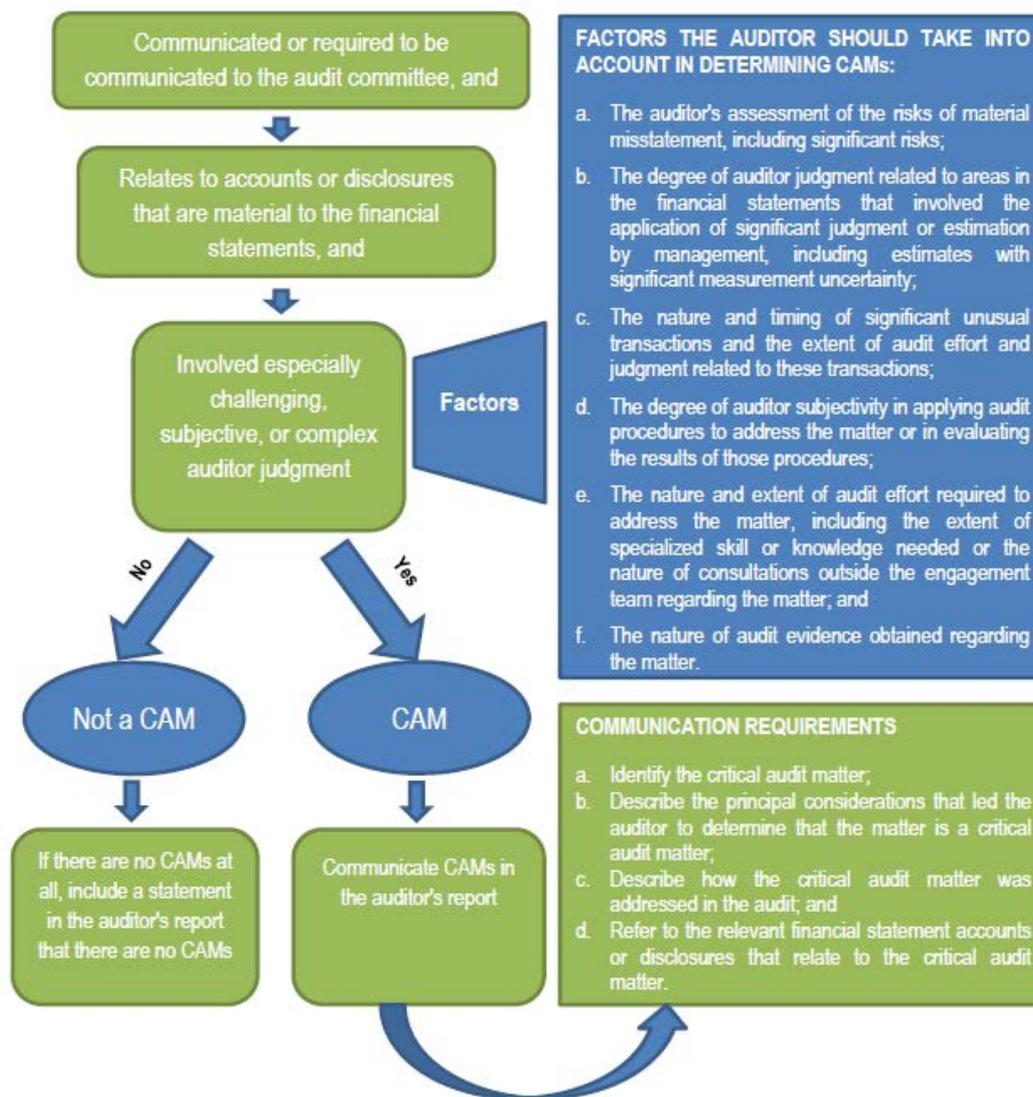
- The securities anti-fraud context vs. the financial reporting context
- Does FASB have authority to define materiality?
- Authoritative guidance needed to apply the materiality definition



Mini-case Study 2:

PCAOB's Audit Reporting Model

Determining and Communicating Critical Audit Matters ("CAMs")



Source: PCAOB Release No. 2017-001, June 1, 2017, Page 14

Conclusion

- **Policymaking: striking the right balance**
- **Reducing informational asymmetries for investors**
- **The importance of accounting professionals**

When accountants do their jobs well by producing high-quality financial information, that information energizes our capital markets, enabling... companies... to...grow..., creating investment opportunities, jobs and other benefits for the U.S. economy....

Investors, issuers, and the markets all depend on the work you do and the judgments you make...

—SEC Chief Accountant Wesley Bricker