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Chairman Herz:

I appreciate the opportunity to provide input in regards to the Invitation to Comment on Selected Issues Relating to Assets and Liabilities with Uncertainties. I think it is imperative to know that I am currently a Masters Candidate at the University of South Carolina and while I have no professional accreditation, I believe the responses to each question are practical and knowledgeable in nature. I also look forward to your response to this invitation.

The step toward international convergence between the FASB and the IASB is a step in the right direction. It has long been desired in the financial community to have one set of standards to improve comparability and increase consistency. All business people realize that we operate in a world-wide economy, and as new economies develop, standards must be in place allow them to compete effectively throughout the world. While I believe that both boards are doing an excellent job, I do not fully support the ideas that the IASB proposes.

The following are my responses to the specific questions in the Invitation to Comment.

1) Do you agree with eliminating the notion of contingent assets? If not, why not?

I support the IASB's proposal to eliminate contingent assets. Under the current IASB Framework, an asset is defined as "a resource that is currently controlled by an entity as a result of a past transaction." A contingent asset is defined as "a possible asset." While I agree with the definition of a contingent asset, I offer a differing opinion on the definition of an asset. My definition of an asset is a financial resource which can be used to obtain another financial resource or extinguish a liability. Incorporating my definition with the IASB's, then there would be no contingent assets, since none would meet the criteria set forth above.

If the FASB Conceptual Framework and the notion of conservative accounting found in US GAAP were used as guides, the recognition of a contingent asset would violate both

the framework and conservative accounting since no reasonable estimate can be made in calculating the *potential*, or possible, benefits associated with said asset. From a practical perspective, potential financial benefits do not necessarily translate into actual financial benefits.

2) Do you agree with the IASB's analysis of unconditional and conditional rights in contractual settings, as summarized in paragraphs 30 and 31 of this Invitation to Comment and paragraphs BC10-BC13 of the IASB Exposure Draft? If not, why not?

I agree with the IASB's analysis of unconditional and conditional rights in contractual settings. The insurance contract example in paragraph 31 is an excellent example. As I interpret their example, when an entity purchases an insurance contract, one asset (cash or cash equivalents) or the creation of a liability (payables) is exchanged for another asset (insurance contract). It is clear that the entity has an unconditional right for insurance coverage, since it has used financial resources to obtain the contract. The contract is easily measured and can be booked as a present asset. However, any future financial resources resulting from the insurance contract are not easily measured and cannot be recognized as assets since they are contingent upon approval of a claim on a future date. Using this example, a contingent asset does not meet the definition of an asset and cannot be recognized.

3) If you answered yes to Question 2, do you agree that the IASB has appropriately applied the notion and supporting reasoning referred to therein in the analysis of Examples 1-3 in paragraphs 33-35 of this Invitation to Comment? If not, why not?

Yes, I agree that the ISAB has appropriately applied the notion and supporting reasoning referred to therein in the analysis of the examples in paragraphs 33-35. While I question the IASB's ability to accurately measure the assets set forth in the 3 examples, it is apparent that unconditional rights in the examples should be considered assets, while the conditional rights are dependent upon various decisions in which the entity has no control. Please use my response for Question 2 and paragraph 31 in the Invitation to Comment for an additional support.

4) Do you agree with the IASB's proposal to classify as intangible assets those unconditional rights that are associated with conditional rights and that satisfy the definition of an asset, without shifting the consideration of the uncertainty surrounding the conditional rights from recognition to measurement?

Yes; unconditional rights as defined by the IASB, in my opinion, meet the definition of an asset and I have no problem in classifying them as intangibles in the instances where an accurate measure can be made. For example, the unconditional right to have a lawsuit heard before a court of law does have value to the filing entity, and thus, should be considered an asset. The problem arises when measuring the *actual* value of this asset. There is no current guidance offered for measuring these types of assets and I encourage

the FASB and IASB to conduct additional studies to evaluate the value of intangible assets such as these.

5) Do you agree with eliminating the notion of contingent liability? If not, why not?

Absolutely not! As a firm believer and supporter of US-based GAAP, I believe that the conservative approach is a fair representative of a firm's financial condition. Under US GAAP, the elimination of the contingent liability is not permitted and should not be eliminated by the IASB. Assuming that the IASB is concerned with fair presentations of financial information, the recognition of a contingent liability reveals to all interested parties that economic resources could be needed to satisfy a future obligation. My opinion is also based on a "Wall St." perspective, whereas financial surprises, especially negative, are not held in high regard. By keeping contingent liabilities on the balance sheet, potential investors can make informed decisions about the financial health of an entity; eliminating them would only alienate investors from capital markets due to increased risk and uncertainty associated with a lack of disclosure of contingent liabilities.

6) Do you agree with the IASB's analysis of unconditional and conditional obligations in contractual settings, as summarized in paragraphs 39 and 40 of this Invitation to Comment and paragraphs BC24-BC28 of the IASB Exposure Draft? If not, why not?

I agree with the IASB's analysis of an unconditional obligation in contractual settings for the same reasons I agreed with their analysis of unconditional rights regarding assets. However, I disagree with their analysis of conditional obligations. If there is a likelihood of future economic obligations, regardless of timing or differing opinions on probability, a contingent liability should be recognized, accurately measured, and booked on the balance sheet.

I offer an example to expand upon my thoughts. In this example, I use an automobile manufacturer and the associated warranties they offer on new automobiles. From a practical perspective, no consumer would purchase a brand new automobile without a warranty. It is also unreasonable to think that no warranty expenses will be incurred in the future; therefore, to not require the firm to recognize their conditional obligation (i.e. the future expenses associated with repair) seriously hinders a potential financial statement user's ability to accurately measure the true financial condition of the firm. I believe that a reasonable person would agree that warranty expenses **WILL** be incurred in the future and it is the firm's responsibility to include a Reserve for Warranty in the balance sheet. With this provision, the firm recognizes that future expenses associated with the warranty will occur and adequately discloses this information.

7) If you answered yes to Question 5, do you agree that the IASB has appropriately applied the notion and supporting reasoning referred to therein in the analysis of the example in paragraph 41 of this Invitation to Comment? If not, why not?

The answer to Question 5 was a resounding no and explanations can be found within.

8) Do you agree with omitting the probability criterion for recognition of nonfinancial liabilities? If not, why not?

No, I do not agree with omitting the probability criterion for recognition of nonfinancial liabilities. I do however agree with the IASB's definition of a provision, yet disagree with their assumption that the probability recognition criterion is currently being applied in the wrong manner. Actually, I find the IASB's definition of *probable* to be very vague and liberal, as "more likely than not" will vary among individuals. Once again, I reiterate the practice of conservatism in the recognition of nonfinancial liabilities and stress the use of conservatism in the probability criterion.

Conservatism should advise recognition of a liability regardless of the varying definitions of probability, and the liability should be recognized as soon as it is identified. Also, on each subsequent balance sheet date, the liability should be reevaluated and increased if new circumstances warrant, but should not be decreased. If the actual settlement amount is lower than the liability, I realize that a gain will be recorded, but in my opinion, that does not matter since the Efficient Market Hypothesis believes that financial markets are not fooled by accounting methods and will have incorporated this information into the value of the underlying security. Therefore, the net result is zero as no true financial impact has occurred.

9) Do you agree with the proposed measurement requirements for nonfinancial liabilities? If not, why not?

Yes, I agree with the proposed measurement requirements. A "best estimate" incorporates individual judgment and will vary based on an individual's experience, expertise, and bias on the matter at hand. If a mark-to-market requirement is established, it would eliminate the judgment aspect in measuring the liability and use a practical, real-world, valuation based on current market conditions and previous results. I also agree that when discounting future cash flows, the discount rate used in the initial estimate should remain constant when remeasurement occurs.

Thank you for taking the time to read my thoughts on the Invitation to Comment. I truly appreciate this opportunity and hope the opinions presented above assist any decision FASB renders in regards to asset and liability uncertainties.

My regards,

Donald Brock

Cc: Christopher Cox