

North Carolina State Board of Certified Public Accountant Examiners

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July 21, 2008



LETTER OF COMMENT NO.

Russell G. Golden, Director Technical Application & Implementation Activities **FASB** 401 Merritt 7 PO Box 5116 Norwalk, CT 06856-5116

File Reference No. 1600-100

Dear Mr. Golden:

The North Carolina State Board of CPA Examiners (the Board) has reviewed the exposure draft of the Proposed Statement of Financial Accounting Standards entitled, Disclosure of Certain Loss Contingencies, aimed to amend FASB Statements No. 5 and 141R. The Board believes that the proposed exposure draft, as written, will serve to improve the quality and consistency of financial reporting of loss contingencies.

The Board offers the following comments:

- 1. The Board believes that the proposed Statement meets the project's objective of providing enhanced disclosures about loss contingencies so that the benefits of those disclosures justify the incremental costs.
- 2. The Board agrees with the decision of the FASB to include, within the scope of this proposed Statement, obligations that may result from withdrawal from a multi-employer plan for a portion of its unfunded benefit obligations since these obligations are currently subject to the provisions of Statement No. 5.
- 3. The Board believes that an entity should be required to provide disclosures about loss contingencies, regardless of the likelihood of loss, if the resolution of the contingencies is expected to occur within one year of the date of the financial statements and the loss contingencies could have a severe impact upon the operations of the entity. The Board believes this to be important information for financial statement users.

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- 4. Regarding paragraph 10, the Board agrees with requiring entities to disclose the amount of the claim or assessment against the entity, or, if there is no claim or assessment amount, the entity's best estimate of the maximum possible exposure to loss. The Board believes that disclosing the possible loss or range of loss should be optional, rather than required, if an entity believes the amount of the claim or assessment or its best estimate of the maximum possible exposure to loss is not representative of the entity's actual exposure.
- 5. If a loss contingency does not have a specific claim amount, an entity should be able to provide a reliable estimate of the maximum exposure to loss (as required by paragraph 7(a)) that is meaningful to users. In situations where the calculation of a reliable estimate of the maximum exposure to loss amount is not feasible, the reason for such conclusion should be disclosed.
- 6. The Board supports the disclosure of settlement offers made between counterparties in a dispute only if there is reason to believe, at the time the financial statements are issued, that an agreement will be reached on the amount being disclosed.
- 7. The Board believes that the tabular reconciliation of recognized loss contingencies, provided on an aggregate basis, provide useful information about loss contingencies for assessing future cash flows and understanding changes in the amounts recognized in the financial statements.
- 8. The Board agrees with the proposed Statement providing a limited exemption from disclosing prejudicial information in situations where the disclosure of such information could have a negative affect on the outcome of the contingency itself.
- 9. The Board agrees with the two-step approach in paragraph 11 associated with the limited exemption from disclosing prejudicial information.
- 10. The Board agrees with the FASB's decision that the proposed Statement includes language indicating that the circumstances under which the prejudicial exemption may be exercised are expected to be *rare*.

- 11. The Board agrees with the description of *prejudicial information* as information whose "disclosure ... could affect, to the entity's detriment, the outcome of the contingency itself."
- 12. The Board believes that it is right for entities to disclose all of the proposed requirements, including the tabular reconciliation, for interim, as well as annual, reporting periods.
- 13. The Board believes that the information about loss contingencies included in the proposed Statement is sufficient to enable financial statement users to understand and assess the risks involved with each loss contingency.
- 14. The Board believes that it is operational for entities to implement the proposed statement in fiscal years ending after December 15, 2008, since most of the required information should be readily available.

The Board wishes to commend the FASB on a job well done. The Board is appreciative of the continued efforts of the FASB to establish consistent accounting and financial reporting standards that benefit financial statement preparers, auditors, and users.

Sincerely,

Arthur M. Winstead, Jr., CPA

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President