



LETTER OF COMMENT NO. 219

**Mr. Russell G. Golden**  
**Technical Director**  
**Financial Accounting Standards Board**  
**File Reference No. 1600-100**

Further to the FASB proposed statements Number 5 and 141 (R) –**Exposure Draft–Proposed Statement of Financial Accounting Standards–Disclosure of Certain Loss Contingencies an amendment of FASB Statement Number 5 and 141 (R)** (hereinafter the “Proposed Standards” or “Proposal to Standards”), we detail our comments below:

- We consider the Proposed Standards represent an improvement on the disclosure of information listed companies offer to the market, enlarging disclosures related to contingencies, contributing in this way to achieving more transparency.
- Notwithstanding the above mentioned, we understand that certain disclosures call for additional consideration in order to protect investors’ interests in each of these Entities, mainly to avoid revealing certain information that might be prejudicial to the Entity’s interests ( therefore investors’)

On the basis of the aforementioned, we make the following considerations / comments as regards the Proposed Standards:

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<p>6. Notwithstanding the guidance in paragraph 5, an entity shall disclose a loss contingency, or a combination of loss contingencies, regardless of the likelihood of loss, if both:</p> <p style="padding-left: 40px;">a. The contingency or contingencies are expected to be resolved in the near term <sup>1</sup>; and</p> <p style="padding-left: 40px;">b. The contingency or contingencies could have a severe impact <sup>2</sup> on the entity’s financial position, cash flows, or results of operations.</p> <p><sup>1</sup>The term <i>severe impact</i> means a significant financially disruptive effect on the normal</p>	<p>Although the FASB Proposed Standards define the meaning of the term ‘severe impact’, we believe they should also indicate the parameters to be taken into account when estimating it so as to avert any legal action against the Entity on account of non disclosed events, on the part of investors and/or third parties using this accounting information. They should take into consideration the different parameters each entity shall use to estimate the amount to be deemed within the scope of the term “severe impact.”</p> <p>According to the Exposure Draft “Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information” issued by FASB,</p>

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<p>functioning of an entity. Severe impact is a higher threshold than material. Matters that are important enough to influence a user's decisions are deemed to be material, yet they may not be so significant as to disrupt the normal functioning of the entity. Some events are material to an investor because they might affect the price of an entity's capital stock or its debt securities, but they would not necessarily have a severe effect on (disrupt) the entity itself. The concept of severe impact, however, includes matters that are less than catastrophic. Matters that are catastrophic include, for example, those that would result in bankruptcy. [SOP 94-6]</p>	<p>and as described below, one of the requirements is to ensure understandability of the accounting information. In this respect, we reckon that for the information in the financial Statements to be clearly understood by all users (understandable regarding its meaning), the standards that govern this disclosure should likewise be clear so as to avoid particular considerations (discrepancies) in their application and keeping in mind how issuers may construe the Proposed Standards requirements (in this case, the parameters for each event to be judged as "severe impact"):</p> <p><i>"...QC23. Understandability is the quality of information that enables users to comprehend its meaning. Understandability is enhanced when information is classified, characterized, and presented clearly and concisely. Comparability also can enhance understandability..."</i></p>
<p><i>"7. An entity shall disclose the following information about loss contingencies required to be disclosed under paragraph 5 or 6:</i></p> <p><i>a. Quantitative information about the entity's exposure to loss from the contingency (including any amounts already recognized in the financial statements but excluding potential recoveries disclosed under paragraph 7(c)), as follows:</i></p> <p><b>(1) The amount of the claim or assessment against the entity (including damages, such as treble or punitive damages), if applicable</b></p> <p><b>(2) If there is no claim or assessment amount, the entity's best estimate of the maximum exposure to loss.</b></p> <p><i>An entity also may disclose its best estimate of the possible loss or range of loss if it believes that the amount of the claim or</i></p>	<p>We reckon that the paragraph below mentioned in the Proposed Standards 'an entity 'may' disclose its best estimate of loss or range of loss if this entity believes that the claim or maximum exposure to loss is not representative of the entity's actual exposure' may weaken the entity's position in case of claim against it; that is to say, the paragraph might be construed as follows:</p> <p>Non-disclosure of best estimate of possible loss (according to the Proposed Standards wording) could be interpreted as an implicit recognition of third party 's claim.</p> <p>Furthermore, disclosing its best estimate when facing a claim might result in having a weak position as to an on going legal defence if the case may be, contrary to the interests of the Entity and , consequently, current investors, who are one of those "primary users" of financial information as defined in the Exposure Draft "Conceptual Framework for Financial Reporting: The Objective</p>

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<p><i>assessment or the maximum exposure to loss is not representative of the entity's actual exposure.</i></p> <p><i>An entity also may disclose its best estimate of the possible loss or range of loss if it believes that the amount of the claim or assessment or the maximum exposure to loss is not representative of the entity's actual exposure."</i></p> <p>b. Qualitative information about the contingency sufficient to enable users to understand the risks posed to the entity. This information shall include, at a minimum, a description of the contingency, including how it arose, its legal or contractual basis, its current status, and the anticipated timing of its resolution; a description of the factors that are likely to affect the ultimate outcome of the contingency along with their potential effect on the outcome; the entity's qualitative assessment of the most likely outcome of the contingency; and significant assumptions made by the entity in estimating the amounts disclosed in paragraph 7(a) and in assessing the most likely outcome.</p> <p>c. A qualitative and quantitative description of the terms of relevant insurance or indemnification arrangements that could lead to a recovery of some or all of the possible loss, including any caps, limitations, or deductibles that could affect the amount of recovery.</p>	<p>of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information" issued by FASB</p> <p><b><i>"...Chapter 1: The Objective of Financial Reporting</i></b></p> <p><i>S2. The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to present and potential equity investors, lenders, and other creditors in making decisions in their capacity as capital providers. Capital providers are the primary users of financial reporting. To accomplish the objective, financial reports should communicate information about an entity's economic resources, claims to those resources, and the transactions and other events and circumstances that change them. The degree to which that financial information is useful will depend on its qualitative characteristics..."</i></p> <p>Likewise, we believe that including best estimates of maximum exposure ( by virtue of the non-mandatory status of this requirement ) would generate more uncertainty to investors, since they would not be able to determine the total amounts recognized as loss and, consequently, the total amount of exposure to additional loss the Entity might be liable to.</p> <p>Also, we consider that in some cases, the estimate of total amount (economic assessment) may imply carrying out jobs that should require long periods as well as information that may not be available on a certain date, making it impossible to determine such amounts on reporting deadlines. In these cases, the obligation to inform best estimate could lead to disclosing inaccurate information, contrary to the accounting standards identified by FASB in the Exposure Draft "Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and</p>

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	<p>Constraints of Decision-Useful Financial Reporting Information” as mentioned below::</p> <p><i>“...The Boards have identified two fundamental qualitative characteristics—relevance and faithful representation:</i></p> <p><i>a. Financial reporting information that has predictive value or confirmatory value is relevant.</i></p> <p><i>b. Financial reporting information that is complete, free from material error, and neutral is said to be a faithful representation of an economic phenomenon....”</i></p> <p><i>“...S6. Comparable information enables users to identify similarities in and differences between two sets of economic phenomena. Verifiable information lends credibility to the assertion that financial reporting information represents the economic phenomena that it purports to represent. Timeliness provides information to decision makers when it has the capacity to influence decisions. Understandability is the quality of information that enables users to comprehend its meaning...”</i></p> <p><b><i>“...Application of the Constraints on Financial Reporting</i></b></p> <p><i>QC32. Materiality is a pervasive constraint on financial reporting because it pertains to all the qualitative characteristics of decision-useful financial reporting information. For example, materiality should be considered when determining whether information has sufficient predictive or confirmatory value to be relevant to users and is sufficiently complete, neutral, and free from error to faithfully represent the economic phenomenon that it purports to represent...”</i></p>

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	<p>Further to the abovementioned, we consider that the Proposed Standards <b>should not explicitly require the disclosure of total amount of claim in the case of recognized loss and /or its best estimate in the case of each contingency.</b> Instead, the requirement should foresee the disclosure in the financial statements of all contingencies that might significantly affect the Entity, taking into account materiality parameters included in 'Concept 2', but without making it mandatory to reveal the amounts before mentioned (consequently, the understanding would be that those amounts are higher than the materiality mentioned). In case the Entity should have contingencies that are not materially significant, individually speaking. (non material), the standards should allow for their consolidation according to nature for the purpose of financial Statements disclosure .</p>
<p>11. For certain contingencies, such as pending or threatened litigation, disclosure of certain information about the contingency may be prejudicial to an entity's position (that is, disclosure of the information could affect, to the entity's detriment, the outcome of the contingency itself). In those circumstances, an entity may aggregate the disclosures required by paragraph 7 at a level higher than by the nature of the contingency such that disclosure of the information is not prejudicial. In those rare instances in which the disclosure of the information required by paragraph 7, when aggregated at a level higher than by the nature of the contingency, or of the tabular reconciliation would be prejudicial (for example, if an entity is involved in only one legal dispute), the entity may forgo disclosing only the information that would be prejudicial to the entity's position. In those circumstances, an entity shall disclose the fact that, and the reason why, the</p>	<p>Following comments in paragraph 7, we believe the exception is not so since it is not possible to leave out information that might be prejudicial to the entity. Disclosure of amount of claim or estimate and potential impact on the Entity, as foreseen in the Proposed Standards, might be prejudicial.</p> <p>We consider that the disclosure of such information <b>should not be required</b> since that could be contrary to the Entity's interests and, consequently, its investors' (Refer to additional comments to the considerations made in regard to the Exposure Draft "Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information" in previous paragraphs</p>



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information has not been disclosed. <b>In no circumstance</b> may an entity forgo disclosing the amount of the claim or assessment against the entity (or, if there is no claim amount, an estimate of the entity's maximum exposure to loss); providing a description of the loss contingency, including how it arose, its legal or contractual basis, its current status, and the anticipated timing of its resolution; and providing a description of the factors that are likely to affect the ultimate outcome of the contingency along with the potential impact on the outcome.	

We appreciate the opportunity to comment on the Proposed Statement and we would be pleased to discuss our comments with the Board members or the FASB staff at your convenience.

Very truly yours,

Gabriel Leiva  
Director Accounting and Administration  
YPF S.A.