## Mercy Investment Program

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Re: Disclosure of Certain Loss Contingencies



LETTER OF COMMENT NO. 15

Russell Golden, Technical Director Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, Connecticut 06856-5116 director@fasb.org

Each of the four faith-based institutional investors, on whose behalf I am writing, are active investors and have been for more than 30 years. Total combined assets under management are in excess of \$900 million. When I use the term "active investors," I am defining it as: each of the Roman Catholic women's religious orders scrutinizes stock and bond portfolios for companies that are transparent and responsible. Each advocates sound business practices in governance matters such as ethical criteria when seeking contracts, human rights, executive compensation, care for the environment, toxic chemicals, equal employment, corporate political contributions and worker health and safety. Each hires socially responsible investment managers and meets regularly with the managers.

For these reasons, the Dominican Sisters of Hope, Mercy Investment Program, the Sisters of Mercy Regional Community of Detroit and the Ursuline Sisters of Tildonk-U.S. Province offer the following comments on proposed changes to FAS 5 exposure draft on loss contingencies.

We commend you for recognizing that corporations give investors insufficient information on loss contingencies. We agree with the FASB finding that the current disclosure statement fails to "provide adequate information to assist users of financial statements in assessing the likelihood, timing, and amount of future cash flows associated with loss contingencies" (FAS 5 Exposure Draft, Summary, p. v). The changes proposed by the FAS 5 exposure draft, Accounting for Contingencies, represent a welcome step in improving disclosure.

However, we do not believe the draft adequately addresses severe long-term risks. The exposure draft only requires disclosure of severe financial threats that a company deems remotely probable if the issue is expected to be resolved within a year (FAS 5 Exposure Draft para. 6). There is a long history of companies underestimating the likelihood of severe financial threats – Enron, the subprime mortgage predatory and packaging lending crisis, tobacco impact on health and

asbestos liabilities are examples. These kinds of issues developed for many years, with eventual catastrophic consequences for investors. Therefore, we believe FAS 5 should require companies to disclose all severe threats. To ensure that these disclosures are cost-effective, we suggest that "remotely probable" risks that are not expected to be resolved within one year could be described in a narrative, but need not be quantified other than to specify that they may be severe.

To improve investor access to reliable information, we urge that FASB:

- Eliminate or further restrict and define the "prejudicial" information nondisclosure exemption to ensure that it is a rare exception and retain the proposed requirement that filers must in any event quantify their liabilities even if other information does qualify for the prejudicial exemption. (FAS 5 Exposure Draft, para. 11)
- Implement proposed draft language requiring disclosure of all loss contingencies except those that meet certain narrow criteria. (FAS 5 Exposure Draft, para. A12)
- Implement proposed draft language requiring a reporting company to quantify the maximum potential loss in circumstances where it cannot estimate the likely loss. (FAS 5 Exposure Draft, para. 7a)
- Expand the scope of the expanded population of required disclosures and the maximum loss disclosure requirement to include asset impairments. These loss contingencies should be disclosed using the same standards as loss liabilities.

Thank you for your attention. We support your attempt to improve disclosure. The portfolio earnings are critical for the missions in which the Roman Catholic Sisters engage and for care of the elderly and infirm. The proposed accounting standards, including our recommendations, will assist faith-based investors as we plan for immediate and future needs of our membership.

Yours truly,

Valerie Heinonen, o.s.u.

Consultant, Corporate Social Responsibility

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