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September 3, 2010

Technical Director
Financial Accounting Standard Board
401 Merrit 7, P.O. Box 5116
Norwalk, CT 06856-5116

Sent via email to director@fasb.org

RE: Response to Proposed Accounting Standards Update: *Contingencies (Topic 450)*
Disclosure of Certain Loss Contingencies, File Reference No. 1840-100

Hewlett-Packard Company appreciates the opportunity to share certain of our company's views regarding the proposal to require enhanced disclosures about certain loss contingencies.

We understand and support the FASB's continued efforts to improve transparency in financial reporting. We recognize that due to the inherent uncertainties in the origin, development and eventual resolution of certain loss contingencies, financial statement users sometimes have difficulty early in the process understanding the nature, potential magnitude and potential timing of such loss contingencies. Fundamentally, though, we believe the current disclosure requirements prescribed by the Accounting Standards Codification Topic 450, *Contingencies*, already provide an adequate and practical framework for disclosing information about a company's loss contingencies that are of interest to financial statement users. We do not believe the additional disclosures contemplated by the proposed accounting standard would help financial statement users better assess the likelihood, timing, or magnitude of future cash flows associated with certain contingent losses.

While we have several practical concerns about the proposed disclosures which are detailed further in the letter in response to the questions posed by the Board, we are particularly concerned about the proposed requirement to disclose aggregated quantitative information about recognized loss contingencies as this requirement could, in some cases, prejudice the disclosing company's position in litigation. We believe the disclosure of such information could allow users of financial statements to easily associate accrued amounts or changes in accrued amounts to specific loss contingencies, potentially undermining the ability of the disclosing company to obtain a more favorable outcome for the company and its shareholders.



We are also concerned with the proposed requirement to expand the scope of disclosures with respect to remote loss contingencies. Expanded disclosures about contingencies that management, in its best judgment, has determined to be remote with respect to probability will not necessarily provide further clarity to financial statement users regarding the likelihood, timing or magnitude of future cash flows and may create confusion among financial statement users when such users try to compare disclosures made by different companies.

Below are our responses to the specific questions raised in the proposed accounting standards update.

Question 1: Are the proposed disclosures operational? If not, please explain why.

There is a high degree of subjectivity and management judgment concerning loss contingencies and additional disclosures could significantly increase the amount of judgment used in compiling and quantifying the additional data. Accruals for loss contingencies and related disclosures are based on the amalgamation of company and claim-specific facts and circumstances, as well as trends in industry, legislation, and the political climate. In light of this, we believe companies would inevitably quantify and aggregate items differently and would evaluate relevant information for disclosure differently, making it difficult for financial statement users to interpret the aggregated data or the disclosures on a consistent basis among reporting entities. Additionally, the nature of litigation and other loss contingencies is dynamic, making the burden of additional disclosure even more challenging. Given the unique nature and unpredictable timing of developments in loss contingencies, and their impact on the accruals for these loss contingencies, additional disclosures present the risk of prejudicing management's position in litigation or other settlement negotiations, even if aggregated. We also believe the proposed requirement to disclose information about remote loss contingencies would be particularly difficult to implement due to the subjective determination of a "severe impact" from an asserted claim that is assessed as being remote, and at best, a reporting entity can only be expected to exercise judgment with respect whether incremental disclosures are necessary or appropriate and contemporaneously document that judgment.

With that being said, we believe that certain aspects of the proposed disclosures could be considered operational but would require a significant increase in resources devoted to gathering, interpreting and quantifying the data, as well as preparing the tabular and additional disclosures, particularly if the tabular disclosures are required on an interim basis. The proposed disclosures would require significantly more implementation time than the proposed standard currently allows for companies to supplement existing disclosure controls and procedures. The proposed standard could also result in additional audit, professional, and other expert fees due to the significant level of effort involved in the compilation and review of the required disclosures. The potential incremental internal and external costs to companies does not appear to be offset by a significant benefit from expanded disclosures to financial statement users in their ability to assess the likelihood, timing, or magnitude of future cash flows.



Companies may also find legal and other experts reluctant to expand their current level of representations due to potential increased liability, making it challenging to even provide substantive evidence for the incremental disclosures required by the proposed accounting standards update. With respect to these concerns, we urge the FASB to specifically consider the views of litigators and other experts regarding the challenges in providing expanded representations given current standards of their profession and operating agreements between the FASB and professional groups like the American Bar Association.

Question 2: Are the proposed disclosures auditable? If not, please explain why.

Due to the subjective nature of certain loss contingencies, the enhanced disclosures prescribed by the proposed standard would likely require our auditors to place a greater reliance on the judgment and representations of management, internal and external legal counsel and other experts rather than on any incremental objective evidence supporting the expanded disclosures. As noted previously, this additional reliance may come at an increased cost to companies and their shareholders, and may be challenging to obtain due to the increased exposure to liability for legal and other expert counsel. Attorneys and other experts may be unable, due to privilege or confidentiality concerns, or unwilling, due to professional standards and liability considerations, to provide the incremental evidence that auditors may be seeking in order to satisfy their documentation requirements. Specifically, auditors may have difficulty obtaining information from attorneys to corroborate the information in the footnotes regarding loss contingencies which are determined to be remote but potentially severe. The current framework for disclosures about loss contingencies strikes a careful balance between the auditor's need for supportable assertions and meaningful representations from management, legal and other expert counsel.

Question 3: Do you agree that an explicit exemption from disclosing information that is "prejudicial" to the reporting entity is not necessary because the amendments in this proposed Update would:

- a. **Not require any new disclosures based on management's predictions about a contingency's resolution**
- b. **Generally focus on information that is publicly available**
- c. **Relate to amounts already accrued in the financial statements**
- d. **Permit information to be presented on an aggregated basis with other similar loss contingencies?**

If not, please explain why.

No. Without an explicit exemption from disclosing information that is "prejudicial" to the reporting entity, the proposed disclosures, if adopted in whole or in part, could create inadvertent prejudice to a company's position in the resolution of litigation or other contingencies including (but not limited to) the following examples:



- a. Disclosure of the movement in accrued amounts, either in total or on an aggregated basis, could prove to be prejudicial to a company's defenses for certain contingencies as changes in the amounts accrued could be isolated and associated with changes in the qualitative disclosures of the loss contingencies.
- b. A company's ability to aggregate loss contingencies of a similar nature would change over time as claims are added, develop and get settled or otherwise resolved, leaving a reporting entity open to unexpected prejudice to existing positions based on material changes in other aggregated contingencies.
- c. Disclosure about asserted but remote loss contingencies could encourage frivolous litigation by copycat groups whose entire purpose is to enter into lawsuits to generate settlements from corporations, thereby increasing a company's costs in defense of these matters.
- d. The proposed disclosures may require that a company share additional privileged information with its auditors which may further undermine the attorney-client privilege on these matters.

We believe the current framework for disclosures related to loss contingencies strikes an appropriate balance between providing financial statement users qualitative information to understand the nature of material loss contingencies that are probable or reasonably possible of occurring while giving management flexibility in the qualitative nature of disclosures so as not to unduly prejudice a company's position in the resolution of litigation or other contingencies.

Question 4: Is the proposed effective date operational? If not, please explain why.

We would not be required to implement this new standard until the filing of our Form 10-K for our fiscal year ending October 31, 2011. However, due to the significant efforts that may be required to develop new disclosure controls and procedures to address the new disclosure standards, we believe many calendar year-end companies would have difficulty complying with the proposed effective date. As such, if the Board proceeds with this proposal for expanded disclosures, we believe the implementation should be delayed until fiscal years ending after December 15, 2011, at a minimum.

Question 5: Do you believe that the proposed disclosures will enhance and improve the information provided to financial statement users about the nature, potential magnitude, and potential timing (if known) of loss contingencies?

We believe that our current disclosures about our loss contingencies are adequate and provide meaningful information to the readers of our financial statements. Due to the unpredictable nature of legal and other contingencies, we do not believe the proposed disclosures would provide the financial statement users additional insight into the actual magnitude and timing of the accruals or future cash flows related to the loss contingencies. Rarely are loss contingencies settled for the maximum exposure or the amount claimed by opposing parties, and most loss



contingencies are not settled during court proceedings. The additional quantitative information is not meaningful without the context of qualitative information, and the qualitative information can be provided under the current framework for disclosure. Additionally, without more explicit guidelines, thresholds, and examples, the quality of most of the proposed disclosures would still be highly reliant on the diligence and transparency of a company's management, which does not differ significantly from the current framework for disclosure.

We also question whether the disclosure of information regarding remote loss contingencies is relevant or meaningful to the users of financial statements. This is especially true for dispute or litigation-related contingencies since amounts asserted early in the litigation process may be inflated, speculative or even meritless until subjected to further legal due process. Rarely has a loss contingency that we had initially assessed as remote become material to our financial statements and related disclosures, and certainly not to the extent we would consider to have had a severe impact, as described by the proposed standard. Proposed expanded disclosures about remote loss contingencies do not appear to improve the financial statement users' ability to assess the likelihood, timing, or magnitude of future cash flows. More disclosure is not necessarily equivalent to better disclosure, and could potentially dilute the more meaningful disclosures on contingencies for those loss contingencies that are probable or reasonably possible.

Question 6: Do you agree that nonpublic entities should be exempt from the tabular reconciliation disclosures required in the amendments in this proposed Update? If not, please explain why. Are there any other aspects of the amendments that should be applied differently to nonpublic entities? If so, please identify and explain why.

We believe that any proposed amendments to the disclosure requirements for certain loss contingencies should be applied consistently to nonpublic entities. We are often in direct competition with nonpublic entities in various requests for proposal in our services business segment and believe financial information that might influence decision-making, including disclosures about loss contingencies, should be consistent among all entities.

Question 7: The amendments in this proposed Update would defer the effective date for nonpublic entities for one year. Do you agree with the proposed deferral? If not, please explain why.

Provided the FASB considers our suggestion to defer the implementation of any proposed amendments to disclosure requirements until fiscal years ending after December 15, 2011, we believe there should be no difference in the proposed effective date for public and nonpublic entities.

Question 8: Do you believe that the proposed and existing XBRL elements are sufficient to meet the Securities and Exchange Commission's requirements to provide financial statement information in the XBRL interactive data format? If not, please explain why.



We believe certain existing XBRL elements would be sufficient to meet the requirements to provide high level components of the contingencies disclosure in the XBRL interactive data format. However, we believe there would be varying degrees of aggregation and segregation by different companies requiring unique taxonomy so that any comparisons on any basis other than the changes in the total amounts accrued would not be practical or meaningful. We also believe the number of tags available would lead to inconsistent selection based upon the nature and progression of litigation and other contingencies throughout its existence.

In summary, while HP strongly supports the goal of the FASB to provide the users of financial statements with meaningful disclosures, we respectfully disagree that the proposed disclosure requirements allow the users of financial statements to better assess the likelihood, timing, or magnitude of future cash flows associated with certain contingent losses. We recognize that there are significant potential hurdles to the successful and consistent implementation of such changes in disclosure requirements in the time period currently contemplated by the proposal. We recommend that the Board reconsider the need to issue additional disclosure requirements related to loss contingencies, based on the sufficiency and practicality of the existing disclosure framework for loss contingencies.

If you have any questions regarding our comments, please feel free to contact me at Jim.Murrin@hp.com.

Sincerely,

A handwritten signature in black ink that reads "Jim Murrin".

Jim Murrin
Hewlett-Packard Company
Senior Vice President, Controller, and Principal Accounting Officer