September 8, 2010

Via email

Russell G. Golden, Technical Director  
Financial Accounting Standards Board  
File Reference No. 1840-100  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Re: File Reference No. 1840-100: Contingencies (Topic 450), Disclosure of Certain Loss Contingencies

Dear Mr. Golden:

Atmos Energy Corporation appreciates the opportunity to comment on the issues being considered by the Board to enhance the disclosure requirements in Topic 450 Contingencies, Disclosure of Certain Loss Contingencies. Atmos Energy is the country’s largest natural-gas-only distributor, serving over three million natural gas distribution customers in more than 1,600 communities in 12 states from the Blue Ridge Mountains in the East to the Rocky Mountains in the West. We also provide natural gas marketing and procurement services to industrial, commercial and municipal customers primarily in the Midwest and Southeast and manage company-owned natural gas pipeline and storage assets, including one of the largest intrastate natural gas pipeline systems in Texas.

We believe that the current guidance contained in Accounting Standards Codification 450, Contingencies, is a principles-based accounting standard that, when properly applied, has provided transparent and useful information to users of financial statements for over three decades while supporting the delicate balance between the interests of financial statement users, issuers of financial statements and the legal community. We also believe the new and enhanced disclosure requirements proposed in the revised Exposure Draft issued on July 20, 2010 (the Exposure Draft) will 1) cause prejudicial harm to companies, resulting in shareholder loss and 2) provide information that could mislead financial statement users. The following addresses our concerns in greater detail.
Disclosure of Accrued Amounts and a Tabular Reconciliation Would be Prejudicial and Would Harm Company and Shareholder Interests in Litigation

The requirement proposed by 450-20-50-1F.e to disclose and reconcile in a tabular format the amount of recognized (accrued) loss contingencies will likely be detrimental to companies and, ultimately shareholders, in the outcome of litigation. We believe that disclosure of the accrued amount for recognized loss contingencies when that information is not necessary to prevent the financial statements from being misleading is prejudicial. Once an accrual amount has been disclosed, counterparties will use the disclosed amount as a floor in settlement negotiations, resulting in settlement amounts in excess of the original estimate. This disclosure could seriously impair a company’s ability to conduct reasonable settlement negotiations and could create an inherently unreliable estimate as it is almost certain that the disclosed amount will not be the final settlement amount.

While aggregation of recognized loss contingencies by type or class would be permitted to address this concern, we believe aggregation would not fully prevent the disclosure of prejudicial financial information, particularly for companies that have limited recognized loss contingencies. In these situations, disclosure of changes in loss accruals, combined with the other required disclosures would provide detailed insight into a company’s litigation strategy as accrual amounts are adjusted, which could significantly hinder the ability to successfully defend or settle legal matters.

If the FASB decides to move forward with this requirement, we would request the FASB to consider including the following in the final guidance:

1. Provide for an explicit exemption for the disclosure of information deemed prejudicial in the judgment of management. We believe this would be necessary to protect the interest of companies and their shareholders. Also, it may be necessary to comply with any final judgment as these amounts are often subject to confidentiality clauses.

2. Establish a requirement to limit the tabular reconciliation of recognized loss contingencies to annual filings when disclosure of such amounts would be required to ensure the financial statements are not misleading. This disclosure requirement would be more consistent with the disclosure rules for uncertain tax positions found in ASC 740 Income Taxes.

Providing Exhaustive Disclosure for Loss Contingencies That Are at Least Reasonably Possible Could Mislead Financial Statement Users

We are also concerned that the enhanced disclosures proposed for loss contingencies that are at least reasonably possible would provide potentially misleading information for a financial statement user. During the early stages of asserted litigation or other possible loss contingencies, information is often limited, incomplete or potentially manipulated to
achieve a desired outcome. Given the preliminary nature of this information, significant management judgment would be required, which could lead to inconsistent application between companies. Therefore, disclosures, such as the amount claimed by a plaintiff in a lawsuit, the testimony of expert witnesses and unasserted claims based on the existence of studies in reputable trade journals may not present a fair representation of the amounts that will be claimed by plaintiffs, and disclosure of this information will either be misinterpreted or not useful to users.

**Insurance Recoveries should be Considered when Determining the Materiality of Loss Contingencies to be Disclosed**

As currently proposed by 450-20-50-1E, insurance recoveries or other indemnifications may not be considered in the determination of the materiality for disclosure of loss contingencies. If adopted, we believe this requirement would give undue importance to loss contingencies that ultimately will not have a material impact on a company’s financial statements. We believe this will provide misleading and confusing information to users of financial statements because the information that would be required for disclosure would not reflect the economics of the situation.

Further, we believe users of financial statements will be forced to sort through the increased amount of information presented to try and determine which contingencies are really important. This would render the disclosure less meaningful and we believe they would find such information not useful.

**Certain Requirements are not Realistic**

We feel that the proposed effective date is not realistic. The implementation of the proposed disclosures would result in a substantial administrative burden and would require significant effort from affected companies. The time frame proposed does not allow adequate time for management, working in conjunction with legal counsel and external auditors, to undertake the necessary steps to develop new procedures and internal control processes surrounding disclosures to comply with the new requirements. For these reasons, we recommend that if the Exposure Draft is adopted any new requirements should be effective for fiscal years ending after December 15, 2011 to give reporting entities time to fully review and implement the final guidance.

The determination of whether or not the proposed disclosures will be auditable is questionable and will hinge on the amount of corroborating evidence that can and/or will be provided by legal counsel. It is not clear if the governing treaty between the American Institute of Certified Public Accountants (AICPA) and the American Bar Association (ABA) will allow legal counsel to provide the necessary information that auditors will require and, given the nature of the proposed disclosures, legal counsel will be the only source of this information.
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**Conclusion**

We believe the current guidance within Accounting Standards Codification 450, *Contingencies*, has adequately balanced the needs of financial statement users, companies and the legal community. However, if the FASB concludes that it will issue revised guidance, we believe the following changes to the current proposed guidance should be reflected in the final guidance:

- Require disclosure of recognized loss contingencies if necessary only to keep the financial statements from being misleading.
- Remove the requirement for disclosure of accrual amounts in a tabular reconciliation. If a reconciliation is required, limit the disclosure to annual filings.
- Provide an explicit exemption for the disclosure of prejudicial information.
- Allow for the consideration of insurance or other recoveries when determining materiality of contingencies.

We appreciate the opportunity to provide comments on the Exposure Draft. In addition, we are available to discuss our comments with Board members or staff at their convenience.

Sincerely,

Christopher T. Forsythe  
Vice-President, Controller  
Atmos Energy Corporation