

Certified Public Accountants & Advisors

Advancing Tradition

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Technical Director
Financial Accounting Standards Board

RE:

File Reference Number 1840-100

Exposure Draft of July 20, 2010 on Disclosure of Certain Loss Contingencies

Thank you for allowing us the opportunity to comment on the FASB's proposed update to Topic 450 "Disclosure of Certain Loss Contingencies".

Cover & Rossiter is a regional accounting firm headquartered in Wilmington, Delaware. Many of our Clients are small businesses and small to mid-sized nonprofit organizations. We currently have no Clients who file with the SEC. My comments will focus on the potential impact of the Exposure Draft on our Client base.

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

As a general comment, obtaining confirmation from legal counsel regarding contingent liabilities can be a delicate balancing act. Obviously, auditing firms will be more heavily reliant than ever on the legal confirmation process for disclosures of contingent liabilities. Often the issuance of financial statements is delayed awaiting the receipt of a legal letter. Nothing that adds to the complexity of this process should be enacted without weighing the benefits against the costs.

From an operational perspective, the expanded disclosure requirements will almost certainly add to the cost to the Client of the audit process. Certainly BP Oil will have its hands full complying and rightly so, but the provisions of the exposure draft will disproportionately and needlessly impact small organizations.

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?"

I can foresee a significant difficulty relating to this issue and common situations where these disclosures would detract from rather than add to the usefulness of the financial statements. The disclosure requirements will now require disclosure of remote contingencies if their potential magnitude would result in a "severe impact". Unfortunately, lawsuits are a common occurrence. Typically, the damages sought are vastly inflated and the final settlement (if any) is a small fraction of the original amount being sought. Preparers must also now disregard insurance recoveries in gauging the impact of a contingent loss for disclosure purposes. As I read the draft, information about possible recoveries from insurance can only be disclosed in the financial statements to the extent such information has been made available to the plaintiff.

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To use a real-world example, a Client was recently sued in a "slip & fall" lawsuit for several hundred thousand dollars. Although the potential for success of the lawsuit was remote (it was later dismissed) and any settlement would have been covered by insurance, under the provisions of the exposure draft, the Client would have needed to disclose the existence of the lawsuit and the amount sought, but would likely have been prohibited from discussing insurance coverage. In my opinion, such a disclosure would serve to mislead and alarm rather than inform a financial statement user.

The existence of insurance coverage is relevant to the materiality of a potential loss. There is no logical reason to disregard it in gauging materiality for disclosure purposes and then (for all practical purposes) prohibit disclosure of the coverage terms and the impact of the insurance on a potential loss.

Question #6: ".....Are there any other aspects of the amendments that should be applied differently to nonpublic entities? If so, please explain why."

Obviously larger entities have much higher materiality thresholds. Under the provisions of the exposure draft, when insurance is disregarded, virtually <u>every</u> legal action will be required to be disclosed by smaller entities. I would request that the Board consider allowing smaller organizations to take insurance coverage into account when determining whether disclosure of a "material and greater then remote" or "remote but severe impact" loss is required.

Thank you in advance for your consideration of these comments.

Very respectfully,

Peter S. Kennedy, CRA Audit Director

Cover & Rossiter, P.A.