Grant Thornton

September 20, 2010

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Re: File Reference No. 1840-100

Dear Sir:

Grant Thornton LLP appreciates the opportunity to comment on the July 20, 2010 Proposed Accounting Standards Update (ASU), *Contingencies (Topic 450): Disclosure of Certain Loss Contingencies*.

While we appreciate the Board's efforts to address concerns of financial statement users pertaining to current reporting and disclosure related to loss contingencies, we believe those concerns in large part stem from the improper application of existing disclosure standards. We have concerns that several significant aspects of the proposed ASU will be difficult to apply in practice and will require significant incremental implementation cost to be incurred by financial statement preparers, including increased legal and audit costs. In our view, the cost benefit aspects of the proposed ASU do not seem apparent.

Although the movement towards adoption of International Financial Reporting Standards (IFRS) in the United States has slowed, we continue to believe that, as much as possible, the FASB should limit changes to existing GAAP to only those changes that would facilitate convergence. We note that the International Accounting Standards Board (IASB) has an ongoing project to address the accounting for contingencies. We believe that any changes in the existing U.S. standard on accounting and disclosures for contingencies should be conducted in conjunction with the IASB with the goal of developing a single, converged standard.

Should the Board go forward with the proposed ASU, we believe that any necessary changes to the American Bar Association's (ABA) "Statement of Policy Regarding Lawyers' Responses to Auditors' Requests for Information" (December 1975) (ABA treaty) should be made before a final ASU is issued. The use of information provided by legal counsel in the development of potential loss exposure, insurance recoveries, and overall potential significance of claims or potential claims is a critical element of audit evidence. Current audit procedures rely on correspondence with the financial statement preparer's legal counsel as a key piece of evidence in assessing the client's disclosures and accruals for estimated losses. We believe revising the disclosure requirements without a commensurate change in the ABA treaty would create a gap in evidential support necessary for auditors to provide an opinion on such disclosures. For example, Paragraph 5 of the ABA treaty requires legal counsel to mention, in their response to an auditor's request for information, the potential amount of loss or range of loss for a loss contingency in the event that an unfavorable outcome is *not* viewed to be remote. However, auditors will need such information to assess whether a remote contingency could result in a severe impact and thus needs to be disclosed.

Our responses to the questions for respondents follow:

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

Please refer to our response to Question 2 below.

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

We believe that the proposals, particularly without revisions to the ABA treaty, may impose on financial statement preparers and auditors an unrealistic expectation concerning completeness of these disclosures. Some of the requirements seem overly broad, such as to disclose publicly available quantitative information (including damages indicated by the testimony of expert witnesses) and nonprivileged information that would be relevant to financial statement users. Financial statement preparers without in-house legal counsel may struggle to develop this information—especially in differentiating between privileged and nonprivileged information, as that is a legal concept. Auditors may have difficulty evaluating whether the disclosures are complete with respect to litigation matters if legal letters do not address information specific to this requirement. We believe that before a final ASU is issued, it is essential that revisions be made to the ABA treaty.

The proposed ASU also includes an example that may be interpreted as a requirement for entities to consider the existence of third-party scientific studies indicating potential hazards related to a reporting entity's products in evaluating the existence of unasserted loss contingencies. We believe that auditors may have difficulty in assessing whether a reporting entity has properly considered all sources that may contain such studies.

We believe certain requirements in the proposed ASU will increase the cost to audit a reporting entity's loss contingency disclosures and create significant audit evidence issues if the proposed ASU is issued as final without a corresponding revision to the ABA treaty. Also, additional costs would be expected because some of the additional disclosures may require involvement of independent specialists.

3. The June 2008 FASB Exposure Draft, *Disclosure of Certain Loss Contingencies*, had proposed certain disclosures based on management's predictions about a contingency's resolution. The amendments in this proposed Update would eliminate those disclosure requirements such as estimating when a loss contingency would be resolved and the entity's maximum exposure to loss. 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.

Even though the proposed ASU eliminates the predictive disclosures that would have been required by the June 2008 Exposure Draft, we are concerned that in certain circumstances, for example when a reporting entity has few loss contingencies, disclosures such as the tabular reconciliations could provide prejudicial information. We believe that an explicit exemption from disclosing information that is prejudicial continues to be necessary.

The June 2008 Exposure Draft provided for an aggregated reconciliation, which has been clarified in the proposed ASU to be disaggregated by class of loss contingencies. We support the tabular reconciliation on an aggregated basis and believe that disaggregating the reconciliation by class in some cases will result in disclosure of prejudicial information.

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

If the Board decides to issue the final ASU in the current form, we believe that the proposed effective date for public entities should be deferred one year to the first annual reporting period ending after December 15, 2011, and interim and annual periods in subsequent fiscal years. We believe that this additional time would be necessary for public entities to properly analyze the disclosures requirements with their attorneys and other advisors, establish related internal controls and processes, and collect the necessary information to prepare such disclosures. Because of the audit issues and concerns about the adequacy of legal letters received in the audit process, we believe that any changes in the required disclosures would be most efficiently and cost-effectively initially adopted in an entity's year-end financial statements as opposed to adoption in an interim period.

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?

As discussed above, we agree that the proposed ASU will increase the information available to the users of the financial statements. However, in our opinion, these changes will only be marginally beneficial.

We have particular concerns with the requirement in the proposed ASU for entities to disclose remote loss contingencies with a potential severe impact. We believe it is an extremely high hurdle for a contingency, especially one involving litigation, to be evaluated as remote.

Requiring disclosure of a contingency that has such a low risk of loss seems of questionable use to financial statement users. Additionally, we believe that it would be extremely unusual for a remote loss contingency to become a recognized loss without first becoming considered either reasonably possible or probable, at which time it would meet the disclosure threshold for loss contingencies presently required in ASC Topic 450. We believe it would be extremely rare under the current disclosure threshold requirements for a contingency classified as remote to evolve into a loss without the contingency being disclosed prior to the loss occurring.

Should the Board retain the disclosure requirement for certain remote contingencies, we have further concerns regarding using potential "severe impact" as the threshold for that requirement. Identifying severe impact is highly judgmental. We believe that the proposed ASU should be enhanced by providing additional implementation guidance on identifying severe impact.

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 agree with Board's proposal to exempt nonpublic entities from the tabular reconciliation disclosure requirements. Additionally, we do not believe that disclosure should be required by public entities in their interim financial statements.

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.**

Should the Board decide to issue a final standard, we agree with the Board's proposal to defer the effective date for nonpublic entities for one year.

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We would be pleased to discuss our comments with you. If you have any questions, please contact L. Charles Evans, Partner, Accounting Principles Consulting Group, at 832.476.3614 or Charles.Evans@gt.com.

Sincerely,

/s/ Grant Thornton LLP