



September 17, 2010

Mr. Russell G. Golden  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, Connecticut 06856-5116

File Reference No. 1840-100

Dear Mr. Golden:

The Healthcare Financial Management Association's (HFMA's) Principles and Practices (P&P) Board appreciates this opportunity to comment on the Financial Accounting Standards Board's (FASB's) exposure draft of the proposed Accounting Standards Update *Contingencies (Topic 450), Disclosure of Certain Loss Contingencies*, which would require expanded qualitative and quantitative disclosures for certain loss contingencies.

HFMA is a professional organization of more than 35,000 individuals involved in various aspects of healthcare financial management. In 1975, HFMA founded the P&P Board, a special group of experts to serve as the primary advisory group in the areas of accounting principles and financial reporting practices to meet the unique characteristics of health service organizations.

### **General Comments**

In the exposure draft, the FASB noted that investors and other users of financial reporting have expressed concerns that disclosures about loss contingencies under the existing guidance on contingencies in Topic 450 do not provide adequate and timely information to assist them in assessing the likelihood, timing and magnitude of future cash outflows associated with loss contingencies, and the FASB sought comments on all matters in the proposed amendment, including a number of specific issues and questions. Our comments herein will center on these issues, and also will reflect the P&P Board's longstanding efforts to balance two important goals:

1. Financial reporting should improve the level of understanding between those who provide financial information and those who seek and use this information, and
2. Reporting requirements should be feasible in the context of the unique characteristics of the healthcare field.

HFMA

Page 2

File 1840-100, proposed Accounting Standards Update to Topic 450, *Contingencies, Disclosure of Certain Loss Contingencies*  
September 17, 2010

We appreciate the extensive effort the Board expended to provide additional information to financial statement users. We agree with the quest for transparency and consistency in financial reporting and appreciate that several onerous factors in the June 2008 Exposure Draft have been tempered in the current proposal. However, the P&P Board fundamentally disagrees with the proposed amendments to Topic 450. Not only do we view the amendments as disproportionately impacting the healthcare industry due to the significant number of claims and lawsuits the industry is subjected to in the ordinary course of business, but we also believe that the required disclosure of prejudicial information would primarily benefit plaintiffs, not investors and other such users of financial information. We also believe that the current disclosure requirements under Topic 450 provide adequate information for investors and other such financial statement users and the proposed changes would hurt these very users through the disclosure of potential losses that may never be realized.

We believe that there is a danger of information being too speculative with respect to disclosure for certain classifications of loss contingencies. We also believe that the speculative nature of certain information would obscure rather than illuminate an entity's obligations, and in some cases, the required disclosures will bring financial harm to entities. There is significant potential risk to the reporting entities that will come at a significant cost, yet with relatively little benefit to the financial statement users other than plaintiffs.

Within the healthcare industry, there is a unique activity of self-insurance for malpractice claims. At any point in time, a healthcare provider may have a portfolio of asserted and unasserted claims. Typically, healthcare providers estimate losses from asserted and unasserted claims based on the best estimates of the ultimate costs of claims and the relationship of past reported incidents to eventual claims for the entity and/or industry, with assistance from actuaries. The unique characteristics of these claims suggest that they should be excluded from any proposed amendment to Topic 450 in a similar manner as Topic 944, *Financial Services - Insurance*. Accounting guidance regarding these unique malpractice claims against healthcare providers is provided through the *AICPA Audit and Accounting Guide for Health Care Organizations (AAG-HCO)*. The P&P Board recommends that with respect to these industry specific transactions that the AAG-HCO continue to provide guidance and that these claims be excluded from the scope of the proposed changes.

Another concern involves proposed disclosure changes by organizations with multiemployer pension plans. The disclosure of obligations that may result from withdrawal from a multiemployer plan should only be required if it is an entity's intent to actually withdraw from such a plan. Disclosures of the consequences of activities that are not being contemplated are a distraction to the user of financial statements. Such quantification may also require additional actuarial fees.

HFMA

Page 3

File 1840-100, proposed Accounting Standards Update to Topic 450, *Contingencies, Disclosure of Certain Loss Contingencies*  
September 17, 2010

Below are the P&P Board's responses to the FASB's specific questions:

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

We believe that the proposed changes would require a significant amount of additional resources to compile, analyze, report and audit the additional required information. For instance, the requirement to disclose information about a contingency if there is at least a reasonable possibility (that is, more than remote possibility) that a loss may have been incurred will place an inordinate burden on the healthcare industry due to the sheer volume of claims or potential claims. The effort to review each claim independently to ascertain appropriate disclosure would not be cost effective.

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

We believe the ability to audit this information will be impaired due to the subjective nature of certain loss contingencies. In addition, the sheer volume of the information that will be required to be reviewed and audited will result in higher fees from both attorneys and auditors. Attorneys and other experts may be unable or unwilling to provide appropriate auditable evidence. In addition, attorneys' responses to auditor inquiries could result in unintended waivers of the attorney-client privilege.

**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.**

We believe that the prejudicial exemption should be retained. The current guidance requiring the disclosure of amounts accrued when necessary for the financial statements not to be misleading is sufficient for financial statement users to ascertain

HFMA

Page 4

File 1840-100, proposed Accounting Standards Update to Topic 450, *Contingencies, Disclosure of Certain Loss Contingencies*  
September 17, 2010

the likelihood, timing and magnitude of future cash outflows associated with loss contingencies. Further, while the majority of claims for a healthcare entity could be aggregated in a single class, there are outlier loss contingencies that could not be aggregated for which disclosure of the information could be prejudicial to an entity's position.

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

No, for calendar year filers, the additional disclosures proposed will take significant resources to prepare, review and audit. The proposed effective date would not allow for adequate time.

**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 noted above, we do not believe that the proposed disclosures will add any meaningful information for financial statement users other than plaintiffs. To provide disclosures such as information regarding a potential severe impact that may never be realized could be misleading to financial statement users rather than useful information, and could precipitate an event that would not otherwise occur.

**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.**

Yes, we agree that nonpublic entities should be exempt from the tabular reconciliation disclosures, and further, that all healthcare entities should be exempt from the requirement. Such entities typically have contingencies where disclosure would be prejudicial, and therefore less specific disclosure could avoid harm to those organizations. Additionally, to require the tabular reconciliation disclosures quarterly may provide plaintiffs with more precise insight as to the nature or reason for changes in estimated losses. Such information could jeopardize the successful outcome of claims. While our preference is that no such tabular reconciliation be required, at the least, it should only be required on an annual basis.

HFMA

Page 5

File 1840-100, proposed Accounting Standards Update to Topic 450, *Contingencies, Disclosure of Certain Loss Contingencies*  
September 17, 2010

- 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.**

Yes, we agree with the proposed deferral for nonpublic entities.

- 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 no, please explain why.**

As XBRL elements are currently not applicable to a majority of healthcare-related entities due to their nonpublic status; we currently have no comments in response to this question.

Thank you for the opportunity to comment. We are always ready to provide additional comments, or meet with you or members of your board to discuss this matter further. If we can provide additional material or perspective on this issue, please contact Richard Gundling, Vice President of HFMA's Washington, DC office, at (202) 296-2920.

Sincerely,



Mary Connick, CPA  
P&P Board Chair