



September 20, 2010

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

File Reference No. 1840

Dear Mr. Golden:

The Accounting Principles Committee of the Illinois CPA Society (Committee) appreciates the opportunity to provide its perspective on the Proposed Accounting Standards Update, *Disclosures of Certain Loss Contingencies*. The organization and operating procedures of the Committee are reflected in the attached Appendix A to this letter. These recommendations and comments represent the position of the Illinois CPA Society rather than that of any members of the Committee or the organizations with which such members are associated.

We acknowledge the Board's attempt to address the concerns raised by constituents regarding its 2008 exposure draft on the same topic and to remove some of its more contentious provisions. However, as discussed below, we do not believe the changes go far enough to alleviate many of our concerns. We believe that the disclosure requirements of ASC 450, *Contingencies* and ASC 275, *Risks and Uncertainties*, when applied in good faith, balance the investor's need for relevant timely information and a company's need to withhold certain prejudicial and detrimental information. As we mentioned in our 2008 letter, we do not believe the Board has justified why a change is warranted at this time, especially with such a large number of significant changes and enhancements to U.S. GAAP already being discussed. Further, as discussed below in our comments on the specific questions, we are concerned that several aspects of the proposal will, in fact, not be operational.

**Question No. 1:** *Are the proposed disclosures operational? If not, please explain why.*

We believe several aspects of the proposed disclosures are not operational and could negatively impact the outcome of litigation.

We believe the Board should reconsider the need to provide disclosures regarding asserted but remote loss contingencies. Disclosure of remote events is rarely required under U.S. GAAP and this would be an exception. As we indicated in our previous comment letter, we do not



understand the logic of this proposed requirement, particularly in light of materiality considerations. The disclosure threshold requires significant judgment and may also require communications between a company and its auditors that could violate attorney-client privilege. As pointed out in previous comment letters, the information may be confusing. Some users may give undue credence to exorbitant claims made by plaintiffs or expert testimony and some plaintiffs may view the disclosures concerning remote contingencies as a green light to proceed with long drawn out litigation that might ordinarily be settled in the near term for insignificant amounts. If the Board continues to believe this disclosure is important to improve the timeliness of the information, we believe the FASB should provide users with additional guidance. For example, we think it would be helpful to have a definition of the terms “asserted” and “publicly available.”

We believe that some of the other proposed disclosures will also be unduly prejudicial to the reporting entity. If the Board goes forward with the proposal, we recommend that the Board reinstate the explicit exemption from disclosing prejudicial information, after defining and possibly offering implementation guidance as to a definition of “prejudicial information.” Although the proposal permits information to be presented on an aggregated basis, a company with only one large lawsuit will not be afforded the benefit of aggregation. The same limitation applies to a company with a group of diverse lawsuits. The requirement to disclose the average settlement amount could give plaintiffs an undue bargaining advantage.

The proposal requires companies to disclose information about possible recoveries from insurance for all litigation contingencies that are at least reasonably possible, to the extent that such information is discoverable. We believe this information is almost always discoverable and could unfairly prejudice companies in unrelated litigation disputes by giving plaintiffs’ attorneys valuable information about the company’s liability coverage.

If a settlement agreement provides for confidential treatment, we are unclear how a company would comply with the proposed disclosure requirements, especially in light of the underlying concept of cost/benefit of obtaining and disclosing information. Considering the attorney, auditor and especially management time necessary, we do not see how the benefits would justify the dollar and time expenditures, particularly for a smaller non-issuer.

As discussed further below, we believe it will be difficult to audit the disclosures.

**Question No. 2:** *Are the proposed disclosures auditable? If not, please explain why.*

To the extent information is “publicly available”, we believe the disclosures are auditable. However, we believe it will be difficult to audit the disclosures required for asserted but remote



loss contingencies. This is especially true for the completeness assertion. An entity will have to apply a significant amount of judgment to identify such loss contingencies. Further, we believe that the American Bar Association Statement of Policy Regarding Lawyers' Response for Auditors' Requests for Information would not allow attorneys to corroborate much of the data required to determine that the outcome could have a severe impact. We urge the Board to work with the AICPA, PCAOB, and the American Bar Association to amend this long-standing agreement to enable companies to comply with the proposal. We also recommend field testing of the requirements.

**Question No. 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?*

Please see our response to Question 1.

**Question No. 4:** *Is the proposed effective date operational?*

As indicated above, we believe the Board should defer issuance of an accounting standard update until the proposal is field tested and there is an agreement among the AICPA, PCAOB, and the American Bar Association. Without such additional guidance and groundwork, we do not believe the effective date would be operational for either public or private companies. As this Committee has stated in previous comment letters to the Board, the rush to implement changes at year end is unwise, unnecessary, confusing to preparers, users and auditors, and poses a risk to entities that might not be able to properly implement such changes on a shortened implementation schedule. We do not believe there is a pressing need to issue an accounting standard update of this nature at all, let alone with the current year effective date. The short transition period will not provide public companies with sufficient time to install processes and controls to insure the information provided is accurate and complete. If the Board decides to proceed, we recommend a deferral of the effective date until annual periods beginning after December 15, 2011 and interim periods within subsequent fiscal years.



**Question No. 5:** *Do you believe that the proposed disclosures will enhance and improve information provided to financial statement users about the nature, potential magnitude and potential timing (if known) of loss contingencies?*

For the reasons discussed above we do not believe the Board should proceed with the proposal. In our opinion, the potential problems and unintended costs far outweigh any perceived benefits. As we indicated in our opening paragraph, we believe the disclosure requirements of ASC 450, *Contingencies* and ASC 275, *Risks and Uncertainties*, when applied in good faith, balance the investor's need for relevant timely information and a company's need to withhold prejudicial and detrimental information and we do not believe the Board has justified why a change is warranted at this time.

**Question No. 6:** *Do you agree that nonpublic entities should be exempt from the tabular reconciliation disclosures required in the amendments in this proposed Update?*

For the reasons expressed in BC31, we agree that nonpublic entities should be exempt from the tabular disclosures. Although as stated above, we do not support the proposal, we believe that public companies should only be required to provide the information on an annual basis. In our opinion, public companies will not have sufficient time to accurately compile the required information on a quarterly basis. Further, we believe it is prejudicial to provide the information on a quarterly basis, as a quarterly reconciliation will make it too easy for plaintiffs to determine changes in a company's assessment of particular cases.

**Question No. 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?*

As stated above we believe the effective date should be deferred for all companies.

**Question No. 8:** *Do you believe that the proposed and existing XBRL elements are sufficient to meet the Securities and Exchange Commission's requirement to provide financial statement information in the XBRL interactive data format? If not, please explain why?*

The proposed and existing XBRL elements appear to cover sufficiently the common types of loss contingencies and the proposed disclosures required for those contingencies. If necessary, reporting entities could create custom labels for their particular circumstances, to the extent that the "Loss Contingency, Other Disclosures" standard label is considered an insufficient description. Nonetheless, given our previously stated position on this proposed ASU update, many of the proposed modifications to the U.S. taxonomy would become unnecessary, such as the "Remote Loss Contingency [Member]" and the Loss Contingency, Possible Recoveries from Insurance" standard label.



We appreciate the opportunity to offer our comments.

Sincerely,

**Reva Steinberg, CPA**

Chair, Accounting Principles Committee

**Jeffery Watson, CPA**

Vice-chair, Accounting Principles Committee



APPENDIX A  
 ACCOUNTING PRINCIPLES COMMITTEE  
 ORGANIZATION AND OPERATING PROCEDURES  
 2010-2011

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times, includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

**Public Accounting Firms:**

**Large:** (national & regional)

Robert A. Dombrowski, CPA	McGladrey & Pullen LLP
John A. Hepp, CPA	Grant Thornton LLP
Alvin W. Herbert, Jr., CPA	Retired/Clifton Gunderson LLP
Scott G. Lehman, CPA	Crowe Horwath LLP
Matthew G. Mitzen, CPA	Blackman Kallick LLP
Reva B. Steinberg, CPA	BDO USA LLP
Jeffery P. Watson, CPA	Blackman Kallick LLP

**Medium:** (more than 40 professionals)

Gilda M. Belmonte, CPA	E.C. Ortiz & Co, Ltd.
Marvin A. Gordon, CPA	Frost, Rittenberg & Rothblatt, P.C.
Ronald R. Knakmuhs, CPA	Miller, Cooper & Co. Ltd.
Jennifer L. Williamson, CPA	Ostrow Reisen Berk & Abrams Ltd.

**Small:** (less than 40 professionals)

Barbara Dennison, CPA	Selden Fox, Ltd.
Kathleen A. Musial, CPA	BIK & Co, LLP
Michael D. Pakter, CPA	Gould & Pakter Associates LLC

**Industry:**

Christopher M. Denver, CPA	Solomon Edwards Group LLC
Kenneth J. Frederickson, CPA	NGL
Farah. Hollenbeck, CPA	Hospira, Inc.
James B. Lindsey, CPA	TTX Company
Michael J. Maffei, CPA	GATX Corporation
Jacob R. Mrugacz, CPA	U.S. Cellular Telephone & Data Systems
Karen R. Page, CPA	David Lewis Co.
Anthony Peters, CPA	McDonald's Corporation

**Educators:**

James L. Fuehrmeyer, Jr. CPA	University of Notre Dame
Laine E. Malmquist, CPA	Judson University
Leonard C. Soffer, CPA	University of Chicago

**Staff Representative:**

Paul E. Pierson, CPA	Illinois CPA Society
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