
FASB Drops Contingency Disclosure Project

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On July 9, the Financial Accounting Standards Board brought to an end its longstanding [project](#) to consider expanding the disclosures to be included in financial statements about contingencies, particularly litigation contingencies. FASB initiated the project in 2007 based on concerns that companies' disclosures were not adequately informing financial statement users about the potential impact of litigation on a company's financial condition. FASB issued proposals to modify the standard—formerly known as “FAS 5” and now codified at Accounting Standards Codification 450-20—in 2008 and 2010—to provide significant additional disclosures about pending or threatened litigation. Both proposals engendered strong opposition from the business and legal communities due to concerns that expanded disclosures about a company's litigation posture could prejudice the company's position and invade the attorney-client privilege.

By a 5-2 vote, the FASB decided not to pursue the project further. The majority concluded that improving disclosures of loss contingencies was a matter of enforcing compliance with the existing disclosure standard, not adopting new standards.

Since 2010, the SEC staff has scrutinized companies' contingency disclosures and issued numerous comment letters addressing whether companies were complying with the letter of ASC 450-20. In particular, the SEC has emphasized compliance with the existing requirement of ASC 450-20 that where a loss is “reasonably possible,” the reporting company must provide an estimate of the possible loss or range of loss, or explain why an estimate cannot be made. The staff has also stressed the need for reporting companies to reassess their disclosures each period to take into account developments in a lawsuit.

While FASB has decided to stand down, the SEC can be expected to continue its efforts to compel compliance with the standard. Auditors also can be expected to continue to focus on loss contingency disclosures.