450 - Contingencies

450-10 - Overall

450-10-00 - Status

> **General Note:** The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

450-10-00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Acquirer	Amended	Accounting Standards Update No. 2025-03	05/12/2025
Acquisition by a Not-for-Profit Entity	Added	Accounting Standards Update No. 2010-07	01/28/2010
Business	Amended	Accounting Standards Update No. 2017-01	01/05/2017
Commencement Date of the Lease (Commencement Date)	Added	Accounting Standards Update No. 2016-02	02/25/2016
Contract	Added	Accounting Standards Update No. 2014-09	05/28/2014
Corporate Joint Venture	Added	Accounting Standards Update No. 2023-05	08/23/2023
Customer	Added	Accounting Standards Update No. 2014-09	05/28/2014
Formation Date	Added	Accounting Standards Update No. 2023-05	08/23/2023
Joint Venture	Added	Accounting Standards Update No. 2023-05	08/23/2023
Lease	Added	Accounting Standards Update No. 2016-02	02/25/2016
Lessee	Added	Accounting Standards Update No. 2016-02	02/25/2016

Lessor	Added	Accounting Standards Update No. 2016-02	02/25/2016
Reinsurance	Added	Accounting Standards Update No. 2016-19	12/14/2016
Transaction Price	Added	Accounting Standards Update No. 2014-09	05/28/2014
Underlying Asset	Added	Accounting Standards Update No. 2016-02	02/25/2016
Variable Interest Entity	Superseded	Accounting Standards Update No. 2025-03	05/12/2025
Variable Lease Payments	Added	Accounting Standards Update No. 2016-02	02/25/2016
450-10-15-2A	Amended	Accounting Standards Update No. 2023-05	08/23/2023
450-10-15-2A	Amended	Accounting Standards Update No. 2010-07	01/28/2010
450-10-60-2	Amended	Accounting Standards Update No. 2016-19	12/14/2016
450-10-60-3	Amended	Accounting Standards Update No. 2014-09	05/28/2014
450-10-60-4	Amended	Accounting Standards Update No. 2014-09	05/28/2014
450-10-60-8	Amended	Accounting Standards Update No. 2016-02	02/25/2016
450-10-60-12	Superseded	Accounting Standards Update No. 2014-09	05/28/2014

450-10-**05 - Overview and Background**

> **General Note:** The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

450-10-05-**1** The Contingencies Topic includes the following Subtopics:

a. Overall

b. Loss Contingencies

c. Gain Contingencies.

450-10-05-**2** This Subtopic, in combination with Subtopics 450-20 and 450-30, provides general guidance regarding gain and loss contingencies. Other Topics include gain or loss contingencies related to those specific Topics. Therefore, the Contingencies Topic does not include all standards related to contingencies. While not intended to be all-inclusive, the following Relationships Sections within the Contingency Subtopics provide links to many Topic-specific contingencies:

a. See Section 450-10-60 for references to other standards related to uncertainties that could result in either a gain or a loss.

b. See Section 450-20-60 for references to other standards related to uncertainties that could result in a future loss.

c. See Section 450-30-60 for references to other standards related to uncertainties that could result in a future gain.

450-10-05-**3** The Overall Subtopic establishes the scope and scope exceptions for the Contingencies Topic, provides definitions, and includes links to the standards that appear in Subtopics 450-20 and 450-30.

450-10-05-**4** The Contingencies Topic establishes standards of financial accounting and reporting for loss contingencies and gain contingencies, including standards for disclosures.

450-10-05-**5** Resolution of the uncertainty may confirm any of the following:

a. The acquisition of an asset

b. The reduction of a liability

c. The loss or impairment of an asset

d. The incurrence of a liability.

450-10-05-**6** Not all uncertainties inherent in the accounting process give rise to contingencies. Estimates are required in financial statements for many ongoing and recurring activities of an entity. The mere fact that an estimate is involved does not of itself constitute the type of uncertainty referred to in the definition of a loss contingency or a gain contingency. Several examples of situations that are not contingencies are included in Section 450-10-55.

450-10-**15 - Scope and Scope Exceptions**

> **General Note:** The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General

Overall Guidance

450-10-15-**1** The Scope Section of the Overall Subtopic establishes the pervasive scope for all Subtopics of the Contingencies Topic. Unless explicitly addressed within specific Subtopics, the following scope guidance applies to all Subtopics of the Contingencies Topic.

Entities

450-10-15-**2** The guidance in the Contingencies Topic applies to all entities.

Transactions

450-10-15-**2A** The guidance in the Contingencies Topic does not apply to the recognition and initial measurement of assets or liabilities arising from contingencies that are measured at fair value or assets arising from contingencies measured at an amount other than fair value on the acquisition date in a business combination or an acquisition by a not-for-profit entity under the requirements of Subtopic 805-20 or 958-805. Those Subtopics provide the recognition and initial measurement requirements for assets and liabilities arising from contingencies measured at fair value and for assets arising from contingencies measured at an amount other than fair value as part of a business combination or an acquisition by a not-for-profit entity.

> **PENDING CONTENT**
>
> **Transition Date:** P January 1, 2025; N January 1, 2025 **- Transition Guidance :** 805-60-65-1
>
> The guidance in the Contingencies Topic does not apply to the recognition and initial measurement of assets or liabilities arising from contingencies that are measured at fair value or assets arising from contingencies measured at an amount other than fair value on the acquisition date in a business combination under the requirements of Subtopic 805-20, on the acquisition date in an acquisition by a not-for-profit entity under the requirements of Subtopic 958-805, or on the formation date in a joint venture formation under the requirements of Subtopic 805-60. Those Subtopics provide the recognition and initial measurement requirements for assets and liabilities arising from contingencies measured at fair value and for assets arising from contingencies measured at an amount other than fair value as part of a business combination, an acquisition by a not-for-profit entity, or a joint venture formation.

Other Considerations

450-10-15-**3** In some cases, there may be uncertainty about whether a situation is a contingency. Section 450-10-55 includes several situations that are not contingencies, and thus are outside the scope of the Contingencies Topic.

450-10-**20 - Glossary**

> **General Note:** The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

Acquiree

The business or businesses that the acquirer obtains control of in a business combination. This term also includes a nonprofit activity or business that a not-for-profit acquirer obtains control of in an acquisition by a not-for-profit entity.

Acquirer

The entity that obtains control of the acquiree. However, in a business combination in which a variable interest entity (VIE) is acquired, the primary beneficiary of that entity always is the acquirer.

> **PENDING CONTENT**

> **Transition Date:** (P) December 16, 2026; (N) December 16, 2026 **- Transition Guidance :** 805-10-65-5
> The entity that obtains control of the acquiree. See paragraphs 805-10-25-4 through 25-5 for guidance on determining the acquirer.

Acquisition by a Not-for-Profit Entity

A transaction or other event in which a not-for-profit acquirer obtains control of one or more nonprofit activities or businesses and initially recognizes their assets and liabilities in the acquirer's financial statements. When applicable guidance in Topic 805 is applied by a not-for-profit entity, the term business combination has the same meaning as this term has for a for-profit entity. Likewise, a reference to business combinations in guidance that links to Topic 805 has the same meaning as a reference to acquisitions by not-for-profit entities.

Acquisition Date

The date on which the acquirer obtains control of the acquiree.

Business

Paragraphs 805-10-55-3A through 55-6 and 805-10-55-8 through 55-9 define what is considered a business.

Business Combination

A transaction or other event in which an acquirer obtains control of one or more businesses. Transactions sometimes referred to as true mergers or mergers of equals also are business combinations. See also Acquisition by a Not-for-Profit Entity.

Commencement Date of the Lease (Commencement Date)

The date on which a lessor makes an underlying asset available for use by a lessee. See paragraphs 842-10-55-19 through 55-21 for implementation guidance on the commencement date.

Contingency

An existing condition, situation, or set of circumstances involving uncertainty as to possible gain (gain contingency) or loss (loss contingency) to an entity that will ultimately be resolved when one or more future events occur or fail to occur.

Contract

An agreement between two or more parties that creates enforceable rights and obligations.

Corporate Joint Venture

A corporation owned and operated by a small group of entities (the joint venturers) as a separate and specific business or project for the mutual benefit of the members of the group. A government may also be a member of the group. The purpose of a corporate joint venture frequently is to share risks and rewards in developing a new market, product or technology; to combine complementary technological knowledge; or to pool resources in developing production or other facilities. A corporate joint venture also usually provides an arrangement under which each joint venturer may participate, directly or indirectly, in the overall management of the joint venture. Joint venturers thus have an interest or relationship other than as passive investors. An entity that is a subsidiary of one of the joint venturers is not a corporate joint venture. The ownership of a corporate joint venture seldom changes, and its stock is usually not traded publicly. A noncontrolling interest held by public ownership, however, does not preclude a corporation from being a corporate joint venture.

Customer

A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.

Formation Date

> **PENDING CONTENT**
>
> **Transition Date:** P January 1, 2025; N January 1, 2025 **- Transition Guidance :** 805-60-65-1
>
> The formation date of a joint venture is the date on which an entity initially meets the definition of a joint venture, which is not necessarily the legal entity formation date. The formation date is the measurement date for the formation transaction. If multiple arrangements are accounted for as a single transaction that establishes the formation of a joint venture, the formation date is the measurement date for all arrangements that form part of the single formation transaction.

Gain Contingency

An existing condition, situation, or set of circumstances involving uncertainty as to possible gain to an entity that will ultimately be resolved when one or more future events occur or fail to occur.

Joint Venture

An entity owned and operated by a small group of businesses (the joint venturers) as a separate and specific business or project for the mutual benefit of the members of the group. A government may also be a member of the group. The purpose of a joint venture frequently is to share risks and rewards in developing a new market, product, or technology; to combine complementary technological knowledge; or to pool resources in developing production or other facilities. A joint venture also usually provides an arrangement under which each joint venturer may participate, directly or indirectly, in the overall management of the joint venture. Joint venturers thus have an interest or relationship other than as passive investors. An entity that is a subsidiary of one of the joint venturers is not a joint venture. The ownership of a joint venture seldom changes, and its equity interests usually are not traded publicly. A minority public ownership, however, does not preclude an entity from being a joint venture. As distinguished from a corporate joint venture, a joint venture is not limited to corporate entities.

Lease

A contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration.

Legal Entity

Any legal structure used to conduct activities or to hold assets. Some examples of such structures are corporations, partnerships, limited liability companies, grantor trusts, and other trusts.

Lessee

An entity that enters into a contract to obtain the right to use an underlying asset for a period of time in exchange for consideration.

Lessor

An entity that enters into a contract to provide the right to use an underlying asset for a period of time in exchange for consideration.

Loss Contingency

An existing condition, situation, or set of circumstances involving uncertainty as to possible loss to an entity that will ultimately be resolved when one or more future events occur or fail to occur. The term loss is used for convenience to include many charges against income that are commonly referred to as expenses and others that are commonly referred to as losses.

Not-for-Profit Entity

An entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity:

a. Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return

b. Operating purposes other than to provide goods or services at a profit

c. Absence of ownership interests like those of business entities.

Entities that clearly fall outside this definition include the following:

a. All investor-owned entities

b. Entities that provide dividends, lower costs, or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance entities, credit unions, farm and rural electric cooperatives, and employee benefit plans.

Reinsurance

A transaction in which a reinsurer (assuming entity), for a consideration (premium), assumes all or part of a risk undertaken originally by another insurer (ceding entity). For indemnity reinsurance, the legal rights of the insured are not affected by the reinsurance transaction and the insurance entity issuing the insurance contract remains liable to the insured for payment of policy benefits. Assumption or novation reinsurance contracts that are legal replacements of one insurer by another extinguish the ceding entity's liability to the policyholder.

Transaction Price

The amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Underlying Asset

An asset that is the subject of a lease for which a right to use that asset has been conveyed to a lessee. The underlying asset could be a physically distinct portion of a single asset.

Variable Interest Entity

A legal entity subject to consolidation according to the provisions of the Variable Interest Entities Subsections of Subtopic 810-10.

Variable Lease Payments

Payments made by a lessee to a lessor for the right to use an underlying asset that vary because of changes in facts or circumstances occurring after the commencement date, other than the passage of time.

450-10-**55 - Implementation Guidance and Illustrations**

General Note: The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

Implementation Guidance

450-10-55-**1** This Section includes several situations that do not meet the definition of a contingency, and thus are outside the scope of this Topic.

Depreciation

450-10-55-**2** The fact that estimates are used to allocate the known cost of a depreciable asset over the period of use by an entity does not make depreciation a contingency; the eventual expiration of the utility of the asset is not uncertain. Thus, depreciation of assets is not a contingency, nor are such matters as recurring repairs, maintenance, and overhauls, which interrelate with depreciation. This Topic is not intended to alter present depreciation practices as described in Section 360-10-35.

Estimates Used in Accruals

450-10-55-**3** Amounts owed for services received, such as advertising and utilities, are not contingencies even though the accrued amounts may have been estimated; there is nothing uncertain about the fact that those obligations have been incurred.

Changes in Tax Law

450-10-55-**4** The possibility of a change in the tax law in some future year is not an uncertainty.

450-10-**60 - Relationships**

> **General Note:** The Relationships Section contains links to guidance that may be helpful to, but not required by, a user of the Subtopic. This Section may not be all-inclusive. The relationship items are organized according to the Topic structure in the Codification.

General

Interim Reporting

450-10-60-**1** For contingencies and other uncertainties that could be expected to affect the fairness of presentation of financial data at an interim date, see paragraph 270-10-50-6.

Other Assets and Deferred Costs

450-10-60-**2** For contingencies associated with insurance and reinsurance contracts that do not transfer insurance risk, see Section 340-30.

Revenue Recognition

450-10-60-**3** See the guidance on estimating and constraining estimates of variable consideration (for example, a sale with a right of return) in paragraphs 606-10-32-5 through 32-14 included in the transaction price for contracts with customers.

450-10-60-**4** For cases in which a nonmonetary asset is destroyed or damaged (that is, an involuntary conversion) and the amount of monetary assets to be received is uncertain, see paragraph 610-30-25-4.

Other Expenses

450-10-60-**5** For accounting by an insured entity for the contingencies associated with a multiple-year retrospectively rated insurance contract accounted for as insurance, see the Multiple-Year Retrospectively Rated Contracts Subsections of Subtopic 720-20.

Income Taxes

450-10-60-**6** For accounting for uncertainty in income taxes, see Section 740-10-25.

Business Combinations

450-10-60-**7** For recognition of contingent obligations for contractual termination benefits and curtailment losses under employee benefit plans that will be triggered by the consummation of the business combination, see paragraphs 805-20-55-50 through 55-51.

Leases

450-10-60-**8** For variable lease payments, see paragraphs 842-20-55-1 through 55-2.

Financial Services-Insurance

450-10-60-**9** For contingencies that arise when an insurance entity or a reinsurance entity issues an insurance contract, see Subtopic 944-40.

450-10-60-**10** For contingencies associated with a reinsurance contract between insurance entities (including retrocession), see Section 944-20-15.

450-10-60-**11** For contingencies associated with multiple-year retrospectively rated contracts, see Subtopic 944-20.

450-10-60-**12** Paragraph superseded by Accounting Standards Update No. 2014-09.

450-**20 - Loss Contingencies**

450-20-**00 - Status**

> **General Note:** The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

450-20-00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Commencement Date of the Lease (Commencement Date)	Added	Accounting Standards Update No. 2016-02	02/25/2016
Contract	Added	Accounting Standards Update No. 2016-02	02/25/2016
Lease	Added	Accounting Standards Update No. 2016-02	02/25/2016
Lessee	Added	Accounting Standards Update No. 2016-02	02/25/2016
Lessor	Added	Accounting Standards Update No. 2016-02	02/25/2016
Reinsurance	Added	Accounting Standards Update No. 2016-19	12/14/2016
Underlying Asset	Added	Accounting Standards Update No. 2016-02	02/25/2016
Variable Lease Payments	Added	Accounting Standards Update No. 2016-02	02/25/2016
450-20-05-3	Amended	Accounting Standards Update No.	12/14/2016

		2016-19	
450-20-15-2	Amended	Accounting Standards Update No. 2016-13	06/16/2016
450-20-50-1	Amended	Accounting Standards Update No. 2024-03	11/04/2024
450-20-50-2A	Amended	Accounting Standards Update No. 2016-13	06/16/2016
450-20-50-2A	Added	Accounting Standards Update No. 2010-20	07/21/2010
450-20-55-4	Amended	Maintenance Update 2018-02	02/02/2018
450-20-60-2	Amended	Accounting Standards Update No. 2016-13	06/16/2016
450-20-60-3	Amended	Accounting Standards Update No. 2016-13	06/16/2016
450-20-60-14	Amended	Accounting Standards Update No. 2016-19	12/14/2016
450-20-60-15	Amended	Accounting Standards Update No. 2016-02	02/25/2016
450-20-60-16	Amended	Accounting Standards Update No. 2016-02	02/25/2016

450-20-**05 - Overview and Background**

> **General Note:** The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

450-20-05-**1** This Subtopic provides guidance for the recognition and disclosure of a loss contingency.

450-20-05-**2** This Subtopic, in combination with Subtopics 450-10 and 450-30, provides general guidance regarding gain and loss contingencies. Other Topics include gain or loss contingencies related to those specific Topics. Therefore, the Contingencies Topic does not include all standards related to contingencies. While not intended to be all-inclusive, the following Relationships Sections within the Contingency Subtopics provide links to many Topic-specific contingencies:

a. See Section 450-10-60 for references to other standards related to uncertainties that could result in either a gain or a loss.

b. See Section 450-20-60 for references to other standards related to uncertainties that could result in a future loss.

c. See Section 450-30-60 for references to other standards related to uncertainties that could result in a future gain.

450-20-05-**3** The following are examples of loss contingencies for which links are provided in Section 450-20-60:

a. Collectibility of receivables

b. Obligations related to product warranties and product defects

c. Risk of loss from catastrophes assumed by property and casualty insurance entities including reinsurance entities

d. Guarantees of indebtedness of others

e. Obligations of commercial banks under standby letters of credit

f. Agreements to repurchase receivables (or to repurchase the related property) that have been sold.

Dealing with Uncertainty when Accounting for Losses

450-20-05-**4** Accounting standards use two primary approaches to dealing with uncertainty in loss circumstances:

a. Recognition using a probability threshold

b. Measurement using a fair value objective.

450-20-05-**5** This Subtopic deals with uncertainty by requiring a probability threshold for recognition of a loss contingency and that the amount of the loss be reasonably estimable. As noted in paragraph 450-20-30-1, when both of those recognition criteria are met, and the reasonably estimable loss is a range, it requires accrual of the amount that appears to be a better estimate than any other estimate within the range, or accrual of the minimum amount in the range if no amount within the range is a better estimate than any other amount.

450-20-05-**6** In contrast, fair value is not an estimate of the ultimate settlement amount or the present value of an estimate of the ultimate settlement amount. Uncertainty in the amount and timing of the future cash flows necessary to settle a liability and the likelihood of possible outcomes are incorporated into the measurement of the fair value of the liability. For example, a third party would charge a price to assume an uncertain liability even though the likelihood of a future sacrifice is less than probable. Similarly, when the likelihood of a future sacrifice is probable, the price a third party would charge to assume an obligation incorporates expectations about some future events that are less than probable. Recognizing the fair value of an obligation results in recognition of some obligations for which the likelihood of future settlement, although more than zero, is less than probable from a loss contingencies perspective.

450-20-05-**7** Because this Subtopic deals with uncertainty differently, the recognition guidance in Section 450-20-25 is inconsistent with standards in other Topics that have an objective of measuring fair value.

Accruals of Loss Contingencies Do Not Provide Financial Protection

450-20-05-**8** Accrual of a loss related to a contingency does not create or set aside funds to lessen the possible financial impact of a loss. Confusion exists between accounting accruals (sometimes referred to as accounting reserves) and the reserving or setting aside of specific assets to be used for a particular purpose or contingency. Accounting accruals are simply a method of allocating costs among accounting periods and have no effect on an entity's cash flow. Those accruals in no way protect the assets available to replace or repair uninsured property that may be lost or damaged, or to satisfy claims that are not covered by insurance, or, in the case of insurance entities, to satisfy the claims of insured parties. Accrual, in and of itself, provides no financial protection that is not available in the absence of accrual.

450-20-05-**9** An entity may choose to maintain or have access to sufficient liquid assets to replace or repair lost or damaged property or to pay claims in case a loss occurs. Alternatively, it may transfer the risk to others by purchasing insurance. The accounting standards set forth in this Subtopic do not affect the fundamental business economics of that decision. That is a financial decision, and if an entity's management decides to do neither, the presence or absence of an accrued credit balance on the balance sheet will have no effect on the consequences of that decision. Insurance or reinsurance reduces or eliminates risks and the inherent earnings fluctuations that accompany risks. Unlike insurance and reinsurance, the use of accounting reserves does not reduce or eliminate risk. The use of accounting reserves is not an alternative to insurance and reinsurance in protecting against risk. Earnings fluctuations are inherent in risk retention, and they are reported as they occur.

Types of Loss Contingencies

450-20-05-**10** The following are examples of loss contingencies that are discussed in this Subtopic:

a. Injury or damage caused by products sold
b. Risk of loss or damage of property by fire, explosion, or other hazards
c. Actual or possible claims and assessments
d. Threat of expropriation of assets
e. Pending or threatened litigation.

450-20-**15 - Scope and Scope Exceptions**

> **General Note:** The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General

Overall Guidance

450-20-15-**1** This Subtopic follows the same Scope and Scope Exceptions as outlined in the Overall Subtopic, see Section 450-10-15, with specific transaction exceptions noted below.

Transactions

450-20-15-**2** The following transactions are excluded from the scope of this Subtopic because they are addressed elsewhere in the Codification:

a. Stock issued to employees, which is discussed in Topic 718.
b. Employment-related costs, including deferred compensation contracts, which are discussed in Topics 710, 712, and 715. However, certain postemployment benefits are included in the scope of this Subtopic through application of paragraphs 712-10-25-4 through 25-5.
c. Uncertainty in income taxes, which is discussed in Section 740-10-25.
d. Accounting and reporting by insurance entities, which is discussed in Topic 944.
e. Measurement of credit losses for instruments within the scope of Topic 326 on

measurement of credit losses.

450-20-**20 - Glossary**

> **General Note:** The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

Commencement Date of the Lease (Commencement Date)

The date on which a lessor makes an underlying asset available for use by a lessee. See paragraphs 842-10-55-19 through 55-21 for implementation guidance on the commencement date.

Contingency

An existing condition, situation, or set of circumstances involving uncertainty as to possible gain (gain contingency) or loss (loss contingency) to an entity that will ultimately be resolved when one or more future events occur or fail to occur.

Contract

An agreement between two or more parties that creates enforceable rights and obligations.

Gain Contingency

An existing condition, situation, or set of circumstances involving uncertainty as to possible gain to an entity that will ultimately be resolved when one or more future events occur or fail to occur.

Lease

A contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration.

Lessee

An entity that enters into a contract to obtain the right to use an underlying asset for a period of time in exchange for consideration.

Lessor

An entity that enters into a contract to provide the right to use an underlying asset for a period of time in exchange for consideration.

Loss Contingency

An existing condition, situation, or set of circumstances involving uncertainty as to possible loss to an entity that will ultimately be resolved when one or more future events occur or fail to occur. The term loss is used for convenience to include many charges against income that are commonly referred to as expenses and others that are commonly referred to as losses.

Probable

The future event or events are likely to occur.

Reasonably Possible

The chance of the future event or events occurring is more than remote but less than likely.

Reinsurance

A transaction in which a reinsurer (assuming entity), for a consideration (premium), assumes all or part of a risk undertaken originally by another insurer (ceding entity). For indemnity reinsurance, the legal rights of the insured are not affected by the reinsurance transaction and the insurance entity issuing the insurance contract remains liable to the insured for payment of policy benefits. Assumption or novation reinsurance contracts that are legal replacements of one insurer by another extinguish the ceding entity's liability to the policyholder.

Remote

The chance of the future event or events occurring is slight.

Underlying Asset

An asset that is the subject of a lease for which a right to use that asset has been conveyed to a lessee. The underlying asset could be a physically distinct portion of a single asset.

Variable Lease Payments

Payments made by a lessee to a lessor for the right to use an underlying asset that vary because of changes in facts or circumstances occurring after the commencement date, other than the passage of time.

450-20-**25 - Recognition**

> **General Note:** The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General

General Rule

450-20-25-**1** When a loss contingency exists, the likelihood that the future event or events will confirm the loss or impairment of an asset or the incurrence of a liability can range from probable to remote. As indicated in the definition of contingency, the term loss is used for convenience to include many charges against income that are commonly referred to as expenses and others that are commonly referred to as losses. The Contingencies Topic uses the terms probable, reasonably possible, and remote to identify three areas within that range.

450-20-25-**2** An estimated loss from a loss contingency shall be accrued by a charge to income if both of the following conditions are met:

a. Information available before the financial statements are issued or are available to be issued (as discussed in Section 855-10-25) indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements. Date of the financial statements means the end of the most recent accounting period for which financial statements are being presented. It is implicit in this condition that it must be probable that one or more future events will occur confirming the fact of the loss.

b. The amount of loss can be reasonably estimated.

The purpose of those conditions is to require accrual of losses when they are reasonably estimable and relate to the current or a prior period. Paragraphs 450-20-55-1 through 55-17 and Examples 1-2 (see paragraphs 450-20-55-18 through 55-35) illustrate the application of the conditions. As discussed in paragraph 450-20-50-5, disclosure is preferable to accrual when a reasonable estimate of loss cannot be made. Further, even losses that are reasonably estimable shall not be accrued if it is not probable that an asset has been impaired or a liability has been incurred at the date of an entity's financial statements because those losses relate to a future period rather than the current or a prior period. Attribution of a loss to events or activities of the current or prior periods is an element of asset impairment or liability incurrence.

Assessing Probability of Incurrence of a Loss

450-20-25-**3** The conditions in the preceding paragraph are not intended to be so rigid that they require virtual certainty before a loss is accrued. Instead, the condition in (a) in the preceding paragraph is intended to proscribe accrual of losses that relate to future periods.

Assessing Whether a Loss Is Reasonably Estimable

450-20-25-**4** The condition in paragraph 450-20-25-2(b) is intended to prevent accrual in the financial statements of amounts so uncertain as to impair the integrity of those statements.

450-20-25-**5** That requirement shall not delay accrual of a loss until only a single amount can be reasonably estimated. To the contrary, when the condition in paragraph 450-20-25-2(a) is met and information available indicates that the estimated amount of loss is within a range of amounts, it follows that some amount of loss has occurred and can be reasonably estimated. Thus, when the condition in paragraph 450-20-25-2(a) is met with respect to a particular loss contingency and the reasonable estimate of the loss is a range, the condition in paragraph 450-20-25-2(b) is met and an amount shall be accrued for the loss.

Events After the Date of the Financial Statements

450-20-25-**6** After the date of an entity's financial statements but before those financial statements are issued or are available to be issued (as discussed in Section 855-10-25), information may become available indicating that an asset was impaired or a liability was incurred after the date of the financial statements or that there is at least a reasonable possibility that an asset was impaired or a liability was incurred after that date. The information may relate to a loss contingency that existed at the date of the financial statements, for example, an asset that was not insured at the date of the financial statements. On the other hand, the information may relate to a loss contingency that did not exist at the date of the financial statements, for example, threat of expropriation of assets after the date of the financial statements or the filing for bankruptcy by an entity whose debt was guaranteed after the date of the financial statements. In none of the cases cited in this paragraph was an asset impaired or a liability incurred at the date of the financial statements, and the condition for accrual in paragraph 450-20-25-2(a) is, therefore, not met.

450-20-25-**7** If a loss cannot be accrued in the period when it is probable that an asset had been impaired or a liability had been incurred because the amount of loss cannot be reasonably estimated, the loss shall be charged to the income of the period in which the loss can be reasonably estimated and shall not be charged retroactively to an earlier period. All estimated losses for loss contingencies shall be charged to income rather than charging some to income and others to retained earnings as prior period adjustments.

Business Risks

450-20-25-**8** General or unspecified business risks do not meet the conditions for accrual in paragraph 450-20-25-2, and no accrual for loss shall be made.

450-20-**30 - Initial Measurement**

> **General Note:** The Initial Measurement Section provides guidance on the criteria and amounts used to measure a particular item at the date of initial recognition.

General

450-20-30-**1** If some amount within a range of loss appears at the time to be a better estimate than any other amount within the range, that amount shall be accrued. When no amount within the range is a better estimate than any other amount, however, the minimum amount in the range shall be accrued. Even though the minimum amount in the range is not necessarily the amount of loss that will be ultimately determined, it is not likely that the ultimate loss will be less than the minimum amount. Examples 1-2 (see paragraphs 450-20-55-18 through 55-35) illustrate the application of these initial measurement standards.

450-20-**50 - Disclosure**

General Note: The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

Accruals for Loss Contingencies

450-20-50-**1** Disclosure of the nature of an accrual made pursuant to the provisions of paragraph 450-20-25-2, and in some circumstances the amount accrued, may be necessary for the financial statements not to be misleading. Terminology used shall be descriptive of the nature of the accrual, such as estimated liability or liability of an estimated amount. The term reserve shall not be used for an accrual made pursuant to paragraph 450-20-25-2; that term is limited to an amount of unidentified or unsegregated assets held or retained for a specific purpose. Examples 1 (see paragraph 450-20-55-18) and 2, Cases A, B, and D (see paragraphs 450-20-55-23, 450-20-55-27, and 450-20-55-32) illustrate the application of these disclosure standards.

> **PENDING CONTENT**
>
> **Transition Date:** P December 16, 2026; N December 16, 2026 **- Transition Guidance :** 220-40-65-1
>
> Disclosure of the nature of an accrual made pursuant to the provisions of paragraph 450-20-25-2, and in some circumstances the amount accrued, may be necessary for the financial statements not to be misleading. Terminology used shall be descriptive of the nature of the accrual, such as estimated liability or liability of an estimated amount. The term reserve shall not be used for an accrual made pursuant to paragraph 450-20-25-2; that term is limited to an amount of unidentified or unsegregated assets held or retained for a specific purpose. Examples 1 (see paragraph 450-20-55-18) and 2, Cases A, B, and D (see paragraphs 450-20-55-23, 450-20-55-27, and 450-20-55-32) illustrate the application of these disclosure standards. See paragraphs 220-40-50-21 through 50-25 for additional disclosure requirements.

450-20-50-**2** If the criteria in paragraph 275-10-50-8 are met, paragraph 275-10-50-9 requires disclosure of an indication that it is at least reasonably possible that a change in an entity's estimate of its probable liability could occur in the near term. Example 3 (see paragraph 450-20-55-36) illustrates this disclosure for an entity involved in litigation.

Unrecognized Contingencies

450-20-50-**2A** The disclosures required by paragraphs 450-20-50-3 through 50-6 do not apply to credit losses on instruments within the scope of Topic 326 on measurement of credit losses. (See paragraph 310-10-50-21.)

450-20-50-**3** Disclosure of the contingency shall be made if there is at least a reasonable possibility that a loss or an additional loss may have been incurred and either of the following conditions exists:

a. An accrual is not made for a loss contingency because any of the conditions in paragraph 450-20-25-2 are not met.

b. An exposure to loss exists in excess of the amount accrued pursuant to the provisions of paragraph 450-20-30-1.

Examples 1-3 (see paragraphs 450-20-55-18 through 55-37) illustrate the application of these disclosure standards.

450-20-50-**4** The disclosure in the preceding paragraph shall include both of the following:

a. The nature of the contingency

b. An estimate of the possible loss or range of loss or a statement that such an estimate cannot be made.

450-20-50-**5** Disclosure is preferable to accrual when a reasonable estimate of loss cannot be made. For example, disclosure shall be made of any loss contingency that meets the condition in paragraph 450-20-25-2(a) but that is not accrued because the amount of loss cannot be reasonably estimated (the condition in paragraph 450-20-25-2(b)). Disclosure also shall be made of some loss contingencies that do not meet the condition in paragraph 450-20-25-2(a)-namely, those contingencies for which there is a reasonable possibility that a loss may have been incurred even though information may not indicate that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements.

450-20-50-**6** Disclosure is not required of a loss contingency involving an unasserted claim or assessment if there has been no manifestation by a potential claimant of an awareness of a possible claim or assessment unless both of the following conditions are met:

a. It is considered probable that a claim will be asserted.

b. There is a reasonable possibility that the outcome will be unfavorable.

450-20-50-**7** Disclosure of noninsured or underinsured risks is not required by this Subtopic. However, disclosure in appropriate circumstances is not discouraged.

450-20-50-**8** No disclosure about general or unspecified business risks is required by this Subtopic, however, Topic 275 requires disclosure of certain business risks.

Losses Arising After the Date of the Financial Statements

450-20-50-**9** Disclosure of a loss, or a loss contingency, arising after the date of an entity's financial statements but before those financial statements are issued, as described in paragraphs 450-20-25-6 through 25-7, may be necessary to keep the financial statements from being misleading if an accrual is not required. If disclosure is deemed necessary, the financial statements shall include both of the following:

a. The nature of the loss or loss contingency

b. An estimate of the amount or range of loss or possible loss or a statement that such an estimate cannot be made.

450-20-50-**10** Occasionally, in the case of a loss arising after the date of the financial statements if the amount of asset impairment or liability incurrence can be reasonably estimated, disclosure may best be made by supplementing the historical financial statements with pro forma financial data giving effect to the loss as if it had occurred at the date of the financial statements. It may be desirable to present pro forma statements, usually a balance sheet only, in columnar form on the face of the historical financial statements.

450-20-**55 - Implementation Guidance and Illustrations**

> **General Note:** The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

Implementation Guidance

450-20-55-**1** This Section includes implementation guidance for the application of the conditions for accrual of loss contingencies and for the disclosure requirements of this Subtopic. This guidance does not address all possible applications of the requirements of this Subtopic.

Therefore, accrual and disclosure of loss contingencies should be based on an evaluation of the facts and circumstances in each particular situation.

Injury or Damage Caused by Products Sold

450-20-55-**2** If it is probable that a claim resulting from injury or damage caused by a product defect will arise with respect to products or services that have been sold, accrual for losses may be appropriate. The condition in paragraph 450-20-25-2(a) would be met, for instance, with respect to a drug product or toys that have been sold if a health or safety hazard related to those products is discovered and as a result it is considered probable that liabilities have been incurred. The condition in paragraph 450-20-25-2(b) would be met if experience or other information enables the entity to make a reasonable estimate of the loss with respect to the drug product or the toys.

Risk of Loss or Damage of Property

450-20-55-**3** At the date of an entity's financial statements, it may not be insured against risk of future loss or damage to its property by fire, explosion, or other hazards. Some risks, for all practical purposes, may be noninsurable, and the self-assumption of those risks is mandatory.

450-20-55-**4** The absence of insurance against losses from risks of those types constitutes an existing condition involving uncertainty about the amount and timing of any losses that may occur, in which case a loss contingency exists. Uninsured risks may arise in a number of ways, including the following:

a. Noninsurance of certain risks

b. Co-insurance or deductible clauses in an insurance contract

c. Insurance through a subsidiary or investee to the extent not reinsured with an independent insurer. (The effects of transactions between a parent or other investor and a subsidiary or investee insurance entity should be eliminated from an entity's financial statements in accordance with paragraphs 810-10-45-1 and 323-10-35-7.)

450-20-55-**5** The absence of insurance does not mean that an asset has been impaired or a liability has been incurred at the date of an entity's financial statements. Fires, explosions, and other similar events that may cause loss or damage of an entity's property are random in their occurrence. With respect to events of that type, the condition in paragraph 450-20-25-2(a) is not satisfied prior to the occurrence of the event because until that time there is no diminution in the value of the property. There is no relationship of those events to the activities of the entity prior to their occurrence, and no asset is impaired prior to their occurrence. Further, unlike an insurance entity, which has a contractual obligation under policies in force to reimburse insureds for losses, an entity can have no such obligation to itself and, hence, no liability.

Risk of Loss from Future Events

450-20-55-**6** An entity may choose not to purchase insurance against risk of loss that may result from injury to others, damage to the property of others, or interruption of its business operations. Exposure to risks of those types constitutes an existing condition involving uncertainty about the amount and timing of any losses that may occur, in which case a contingency exists.

450-20-55-**7** Mere exposure to risks of those types, however, does not mean that an asset has been impaired or a liability has been incurred. The condition in paragraph 450-20-25-2(a) is not met with respect to loss that may result from injury to others, damage to the property of others, or business interruption that may occur after the date of an entity's financial statements. Losses of those types do not relate to the current or a prior period but rather to the future period in which they occur. Thus, for example, an entity with a fleet of vehicles should not accrue for injury to others or damage to the property of others that might be caused by those vehicles in the future even if the amount of those losses may be reasonably estimable.

450-20-55-**8** On the other hand, the conditions in paragraph 450-20-25-2 would be met with respect to uninsured losses resulting from injury to others or damage to the property of others if both of the following are true:

a. The event took place prior to the date of the financial statements, even though the entity may not become aware of those matters until after that date.

b. The experience of the entity or other information enables it to make a reasonable estimate of the loss that was incurred prior to the date of its financial statements.

Injury or damage resulting from products that have been sold are discussed in paragraph 450-20-55-2.

Threat of Expropriation

450-20-55-**9** The threat of expropriation of assets is a contingency (as defined) because of the uncertainty about its outcome and effect. The condition in paragraph 450-20-25-2(a) is met if both of the following are true:

a. Expropriation is imminent.

b. Compensation will be less than the carrying amount of the assets.

Imminence may be indicated, for example, by public or private declarations of intent by a government to expropriate assets of the entity or actual expropriation of assets of other entities. The condition in paragraph 450-20-25-2(b) requires that accrual be made only if the amount of loss can be reasonably estimated. If the conditions for accrual are not met, the disclosures described in paragraphs 450-20-50-3 through 50-8 would be made if there is at least a reasonable possibility that an asset has been impaired.

Litigation, Claims, and Assessments

450-20-55-**10** The following factors should be considered in determining whether accrual and/or disclosure is required with respect to pending or threatened litigation and actual or possible claims and assessments:

a. The period in which the underlying cause (that is, the cause for action) of the pending or threatened litigation or of the actual or possible claim or assessment occurred

b. The degree of probability of an unfavorable outcome

c. The ability to make a reasonable estimate of the amount of loss.

Examples 1 through 2 (see paragraphs 450-20-55-18 through 55-35) illustrate the consideration of these factors in determining whether to accrue or disclose litigation.

Losses Arising Before the Date of the Financial Statements

450-20-55-**11** Accrual may be appropriate for litigation, claims, or assessments whose underlying cause is an event occurring on or before the date of an entity's financial statements even if the entity does not become aware of the existence or possibility of the lawsuit, claim, or assessment until after the date of the financial statements. If those financial statements have not been issued or are not yet available to be issued (as discussed in Section 855-10-25), accrual of a loss related to the litigation, claim, or assessment would be required if the probability of loss is such that the condition in paragraph 450-20-25-2(a) is met and the amount of loss can be reasonably estimated.

Assessing Probability of the Incurrence of a Loss

450-20-55-**12** If the underlying cause of the litigation, claim, or assessment is an event occurring before the date of an entity's financial statements, the probability of an outcome unfavorable to the entity must be assessed to determine whether the condition in paragraph 450-20-25-2(a) is met. Among the factors that should be considered are the following:

a. The nature of the litigation, claim, or assessment

b. The progress of the case (including progress after the date of the financial statements but before those statements are issued or are available to be issued [as discussed in Section 855-10-25])

c. The opinions or views of legal counsel and other advisers, although, the fact that legal counsel is unable to express an opinion that the outcome will be favorable to the entity should not necessarily be interpreted to mean that the condition in paragraph 450-20-25-2(a) is met

d. The experience of the entity in similar cases

e. The experience of other entities

f. Any decision of the entity's management as to how the entity intends to respond to the lawsuit, claim, or assessment (for example, a decision to contest the case vigorously or a decision to seek an out-of-court settlement).

450-20-55-**13** The filing of a suit or formal assertion of a claim or assessment does not automatically indicate that accrual of a loss may be appropriate. The degree of probability of an unfavorable outcome must be assessed. The condition in paragraph 450-20-25-2(a) would be met if an unfavorable outcome is determined to be probable. Accrual would be inappropriate, but disclosure would be required, if an unfavorable outcome is determined to be reasonably possible but not probable, or if the amount of loss cannot be reasonably estimated.

450-20-55-**14** With respect to unasserted claims and assessments, an entity must determine the degree of probability that a suit may be filed or a claim or assessment may be asserted and the possibility of an unfavorable outcome. If an unfavorable outcome is probable and the amount of loss can be reasonably estimated, accrual of a loss is required by paragraph 450-20-25-2. For example:

a. A catastrophe, accident, or other similar physical occurrence predictably engenders claims for redress, and in such circumstances their assertion may be probable.

b. An investigation of an entity by a governmental agency, if enforcement proceedings have been or are likely to be instituted, is often followed by private claims for redress, and the probability of their assertion and the possibility of loss should be considered in each case.

c. An entity may believe there is a possibility that it has infringed on another entity's patent rights, but the entity owning the patent rights has not indicated an intention to take any action and has not even indicated an awareness of the possible infringement. In that case, a judgment must first be made as to whether the assertion of a claim is probable.

450-20-55-**15** If the judgment is that assertion is not probable, no accrual or disclosure would be required. On the other hand, if the judgment is that assertion is probable, then a second judgment must be made as to the degree of probability of an unfavorable outcome. The disclosures described in paragraphs 450-20-50-3 through 50-8 would be required in either of the following circumstances:

a. An unfavorable outcome is probable but the amount of loss cannot be reasonably estimated.

b. An unfavorable outcome is reasonably possible but not probable.

Assessing Whether a Loss Is Reasonably Estimable

450-20-55-**16** As a condition for accrual of a loss contingency, the condition in paragraph 450-20-25-2(b) requires that the amount of loss can be reasonably estimated. In some cases, it may be determined that a loss was incurred because an unfavorable outcome of the litigation, claim, or assessment is probable (thus satisfying the condition in paragraph 450-20-25-2[a]), but the range of possible loss is wide. Examples 1 and 3 (see paragraphs 450-20-55-18 and 450-20-55-36) illustrate the application of the standards in this Subtopic when the range of possible loss is wide.

Losses Arising after the Date of the Financial Statements

450-20-55-**17** As a condition for accrual of a loss contingency, the condition in paragraph 450-20-25-2(a) requires that information available before the financial statements are issued or are available to be issued (as discussed in Section 855-10-25) indicate that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements. Accordingly, accrual would clearly be inappropriate for litigation, claims, or assessments whose underlying cause is an event or condition occurring after the date of financial statements but before those financial statements are issued or are available to be issued. For example, an entity would not accrue a suit for damages alleged to have been suffered as a result of an accident that occurred after the date of the financial statements. However, disclosure may be required by paragraphs 450-20-50-9 through 50-10.

Net Loss on Insurance Policies

450-20-55-**17A** This Subtopic does not prohibit (and, in fact, requires) accrual of a net loss (that is, a loss in excess of deferred premiums) that probably will be incurred on insurance policies that are in force, provided that the loss can be reasonably estimated.

Illustrations

Example 1: Litigation Open to Considerable Interpretation

450-20-55-**18** An entity may be litigating a dispute with another party. In preparation for the trial, it may determine that, based on recent developments involving one aspect of the litigation, it is probable that it will have to pay $2 million to settle the litigation. Another aspect of the litigation may, however, be open to considerable interpretation, and depending on the interpretation by the court the entity may have to pay an additional $8 million over and above the $2 million.

450-20-55-**19** In that case, paragraph 450-20-25-2 requires accrual of the $2 million if that is considered a reasonable estimate of the loss.

450-20-55-**20** Paragraphs 450-20-50-1 through 50-2 require disclosure of the nature of the accrual, and depending on the circumstances, may require disclosure of the $2 million that was accrued.

450-20-55-**21** Paragraphs 450-20-50-3 through 50-8 require disclosure of the additional exposure to loss if there is a reasonable possibility that the additional amounts will be paid.

Example 2: Multiple Case Litigation Example

450-20-55-**22** The following Cases illustrate application of the accrual and disclosure requirements in the following stages of litigation:

a. The trial is complete but the damages are undetermined (Case A).

b. The trial is incomplete but an unfavorable outcome is probable (Case B).

c. The trial is incomplete and unfavorable outcome is reasonably possible (Case C).

d. There is a range of loss and one amount is a better estimate than any other (Case D).

Case A: Trial Is Complete but Damages Are Undetermined

450-20-55-**23** An entity is involved in litigation at the close of its fiscal year and information available indicates that an unfavorable outcome is probable. Subsequently, after a trial on the issues, a verdict unfavorable to the entity is handed down, but the amount of damages remains unresolved at the time the financial statements are issued or are available to be issued (as discussed in Section 855-10-25). Although the entity is unable to estimate the exact amount of loss, its reasonable estimate at the time is that the judgment will be for not less than $3 million or more than $9 million. No amount in that range appears at the time to be a better estimate than any other amount.

450-20-55-**24** In this Case, paragraph 450-20-30-1 requires accrual of the $3 million (the minimum of the range) at the close of the fiscal year.

450-20-55-**25** Paragraphs 450-20-50-1 through 50-2 require disclosure of the nature of the contingency and, depending on the circumstances, may require disclosure of the amount of the accrual.

450-20-55-**26** Paragraphs 450-20-50-3 through 50-8 require disclosure of the exposure to an additional amount of loss of up to $6 million.

Case B: Trial Is Incomplete but Unfavorable Outcome Is Probable

450-20-55-**27** Assume the same facts as in Case A, except it is probable that a verdict will be unfavorable and the trial has not been completed before the financial statements are issued or are available to be issued (as discussed in Section 855-10-25). In that situation, the condition in paragraph 450-20-25-2(a) would be met because information available to the entity indicates that an unfavorable verdict is probable. An assessment that the range of loss is between $3 million and $9 million would meet the condition in paragraph 450-20-25-2(b).

450-20-55-**28** In this Case, if no single amount in that range is a better estimate than any other amount, paragraph 450-20-30-1 requires accrual of $3 million (the minimum of the range) at the close of the fiscal year.

450-20-55-**29** Paragraphs 450-20-50-1 through 50-2 require disclosure of the nature of the contingency and, depending on the circumstances, may require disclosure of the amount of the accrual.

450-20-55-**30** Paragraphs 450-20-50-3 through 50-8 require disclosure of the exposure to an additional amount of loss of up to $6 million.

Case C: Trial Is Incomplete and Unfavorable Outcome Is Reasonably Possible

450-20-55-**31** Assume the same facts as in Case B, except the entity had assessed the verdict differently (for example, that an unfavorable verdict was not probable but was only reasonably possible). The condition in paragraph 450-20-25-2(a) would not have been met and no amount of loss would be accrued. Paragraphs 450-20-50-3 through 50-8 require disclosure of the nature of the contingency and any amount of loss that is reasonably possible.

Case D: Range of Loss and One Amount Is a Better Estimate than Any Other

450-20-55-**32** Assume that in Case A and Case B the condition in paragraph 450-20-25-2(a) has been met and a reasonable estimate of loss is a range between $3 million and $9 million but a loss of $4 million is a better estimate than any other amount in that range.

450-20-55-**33** In this Case, paragraph 450-20-30-1 requires accrual of $4 million.

450-20-55-**34** Paragraphs 450-20-50-1 through 50-2 require disclosure of the nature of the contingency and, depending on the circumstances, may require disclosure of the amount of the accrual.

450-20-55-**35** Paragraphs 450-20-50-3 through 50-8 require disclosure of the exposure to an additional amount of loss of up to $5 million.

Example 3: Illustrative Disclosure

450-20-55-**36** Entity A is the defendant in litigation involving a major competitor claiming patent infringement (Entity B). The suit claims damages of $200 million. Discovery has been completed, and Entity A is engaged in settlement discussions with the plaintiff. Entity A has made an offer of $5 million to settle the case, which offer was rejected by the plaintiff; the plaintiff has made an offer of $35 million to settle the case, which offer was rejected by Entity A. Based on the expressed willingness of the plaintiff to settle the case along with information revealed during discovery and the likely cost and risk to both sides of litigating, Entity A believes that it is probable the case will not come to trial. Accordingly, Entity A has determined that it is probable that it has some liability. Entity A's reasonable estimate of this liability is a range between $10 million and $35 million, with no amount within that range a better estimate than any other amount; accordingly, $10 million was accrued.

450-20-55-**37** Entity A provides the following disclosure in accordance with Section 450-20-50.

> On March 15, 19X1, Entity B filed a suit against the company claiming patent infringement. While the company believes it has meritorious defenses against the suit, the ultimate resolution of the matter, which is expected to occur within one year, could result in a loss of up to $25 million in excess of the amount accrued.

450-20-**60 - Relationships**

> **General Note:** The Relationships Section contains links to guidance that may be helpful to, but not required by, a user of the Subtopic. This Section may not be all-inclusive. The relationship items are organized according to the Topic structure in the Codification.

General

Risks and Uncertainties

450-20-60-**1** For disclosure of certain risks and uncertainties that stem from the nature of an entity's operations and from significant concentrations in certain aspects of an entity's operations, many of which are noninsured or underinsured risks, see Topic 275.

Receivables

450-20-60-**2** For contingencies related to the collectibility of receivables, see Subtopic 326-20 on financial instruments measured at amortized cost.

450-20-60-**3** For contingencies related to the collectibility of a loan portfolio, see Subtopic 326-20.

Inventory

450-20-60-**4** For inventories that are impaired by damage, deterioration, obsolescence, changes in price levels, or other causes, see Section 330-10-35.

450-20-60-**5** For losses that are expected to arise from firm, uncancelable, and unhedged commitments for the future purchase of inventory, see Section 330-10-35.

Liabilities

450-20-60-**6** For assessments by state guaranty funds and workers' compensation second-injury funds and other assessments related to insurance activities, including insurance activities of an entity that self-insures, see Subtopic 405-30.

Asset Retirement and Environmental Obligations

450-20-60-**7** For contingencies associated with the retirement of a tangible long-lived asset that result from the acquisition, construction, or development and/or the normal operation of a long-lived asset, see Subtopic 410-20.

450-20-60-**8** For contingencies related to environmental remediation liabilities that arise from the improper operation of a long-lived asset, see Subtopic 410-30.

Guarantees

450-20-60-**9** For contingencies related to product warranties and product defects, see the Product Warranties Subsections of Subtopic 460-10.

450-20-60-**10** For contingencies related to guarantees of indebtedness of others, see Topic 460.

450-20-60-**11** For contingencies related to obligations of commercial banks under financial standby letters of credit, see Topic 460.

Debt

450-20-60-**12** For contingent payments of a troubled debt restructuring, see Section 470-60-35.

Compensation-Retirement Benefits

450-20-60-**13** For contingencies related to withdrawal from a multiemployer plan, see paragraphs 715-80-35-2 and 715-80-50-2.

Other Expenses

450-20-60-**14** For contingencies related to an insurance contract or reinsurance contract that does not, despite its form, provide for indemnification of the insured or the ceding company by the insurer or reinsurer against loss or liability, see paragraph 720-20-25-1.

Leases

450-20-60-**15** For variable lease payments, see paragraphs 842-10-55-1 through 55-2.

450-20-60-**16** For the classification effects of a provision in a lease that requires lessee indemnifications for environmental contamination caused by the lessee during its use of the property, see paragraph 842-10-55-15.

Transfers and Servicing

450-20-60-**17** For contingencies related to agreements to repurchase receivables (or to repurchase the related property) that have been sold or otherwise assigned, see Section 860-10-40.

Extractive Activities-Mining

450-20-60-**18** For contingencies resulting from the Coal Industry Retiree Health Benefit Act of 1992, see Subtopic 930-715.

Financial Services-Insurance

450-20-60-**19** For contingencies related to the risk of loss that is assumed by a property and casualty insurance entity or reinsurance entity when it issues an insurance policy covering risk of loss from catastrophes, see Subtopic 944-40.

Financial Services-Investment Companies

450-20-60-**20** For contingencies related to the collectibility of interest receivable, including purchased interest, see paragraph 946-320-35-17 to 35-19.

Health Care Entities

450-20-60-**21** For contingencies related to malpractice claims, see Subtopic 954-450.

450-20-**S00 - Status**

> **General Note:** The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included

separately in Maintenance Updates.

General

450-20-S00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
450-20-S99-1	Amended	Accounting Standards Update No. 2012-03	08/27/2012
450-20-S99-1	Amended	Accounting Standards Update No. 2009-07	09/15/2009

450-20-**S25 - Recognition**

General Note: The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General

Accounting for Legal Costs

450-20-S25-**1** See paragraph 450-20-S99-2, SEC Staff Announcement: Accounting for Legal Costs Expected to Be Incurred in Connection with a Loss Contingency, for SEC Staff views on the recognition of such costs.

450-20-**S30 - Initial Measurement**

General Note: The Initial Measurement Section provides guidance on the criteria and amounts used to measure a particular item at the date of initial recognition.

General

Use of Discounts

450-20-S30-**1** See paragraph 450-20-S99-1, SAB Topic 5.Y, Question 1, for the SEC Staff views on the use of discounts to measure loss contingencies.

450-20-**S50 - Disclosure**

General Note: The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

Accruals for Loss Contingencies

450-20-S50-**1** See paragraph 450-20-S99-1, SAB Topic 5.Y., Question 2 and Question 4, for the SEC Staff views on disclosures pertaining to loss contingencies.

Policy for Accrual of Legal Costs

450-20-S50-**2** See paragraph 450-20-S99-2, SEC Staff Announcement: Accounting for Legal Costs Expected to be Incurred in Connection with a Loss Contingency, for SEC Staff views on disclosures related to such accounting.

450-20-**S99 - SEC Materials**

General Note: As more fully described in About the Codification, the Codification includes selected SEC and SEC Staff content for reference by public companies. The Codification does not replace or affect how the SEC or SEC Staff issues or updates SEC content. SEC Staff content does not constitute Commission-approved rules or interpretations of the SEC.

General

SEC Staff Guidance

Staff Accounting Bulletins

SAB Topic 5.Y, Accounting and Disclosures Relating to Loss Contingencies

450-20-S99-**1** The following is the text of SAB Topic 5.Y, Accounting and Disclosures Relating to Loss Contingencies.

Facts: A registrant believes it may be obligated to pay material amounts as a result of product or environmental remediation liability. These amounts may relate to, for example, damages attributed to the registrant's products or processes, clean-up of hazardous wastes, reclamation costs, fines, and litigation costs. The registrant may seek to recover a portion or all of these amounts by filing a claim against an insurance carrier or other third parties.

Question 1: Assuming that the registrant's estimate of an environmental remediation or product liability meets the conditions set forth in FASB ASC paragraph 410-30-35-12 (Asset Retirement and Environmental Obligations Topic) for recognition on a discounted basis, what discount rate should be applied and what, if any, special disclosures are required in the notes to the financial statements?

Interpretive Response: The rate used to discount the cash payments should be the rate that will produce an amount at which the environmental or product liability could be settled in an arm's-length transaction with a third party. Further, the discount rate used to discount the cash payments should not exceed the interest rate on monetary assets that are essentially risk free FN48 and have maturities comparable to that of the environmental or product liability.

FN48 As described in Concepts Statement 7, Using Cash Flow Information and Present Value in Accounting Measurements.

If the liability is recognized on a discounted basis to reflect the time value of money, the notes to the financial statements should, at a minimum, include disclosures of the discount rate used, the expected aggregate undiscounted amount, expected payments for each of the five succeeding years and the aggregate amount thereafter, and a reconciliation of the expected aggregate undiscounted amount to amounts recognized in the statements of financial position. Material changes in the expected aggregate amount since the prior balance sheet date, other than those resulting from pay-down of the obligation, should be explained.

Question 2: What financial statement disclosures should be furnished with respect to recorded and unrecorded product or environmental remediation liabilities?

Interpretive Response: FASB ASC Section 450-20-50, Contingencies-Loss Contingencies-Disclosure, identifies disclosures regarding loss contingencies that generally are furnished in notes to financial statements. FASB ASC Section 410-30-50, Asset Retirement and Environmental Obligations-Environmental Obligations-Disclosure, identifies disclosures that are required and recommended regarding both recorded and unrecorded environmental remediation liabilities. The staff believes that product and environmental remediation liabilities typically are of such significance that detailed disclosures regarding the judgments and assumptions underlying the recognition and measurement of the liabilities are necessary to prevent the financial statements from being misleading and to inform readers fully regarding the range of reasonably possible outcomes that could have a material effect on the registrant's financial condition, results of operations, or liquidity. In addition to the disclosures required by FASB ASC Section 450-20-50 and FASB ASC Section 410-30-50, examples of disclosures that may be necessary include:

Circumstances affecting the reliability and precision of loss estimates.

The extent to which unasserted claims are reflected in any accrual or may affect the magnitude of the contingency.

Uncertainties with respect to joint and several liability that may affect the magnitude of the contingency, including disclosure of the aggregate expected cost to remediate particular sites that are individually material if the likelihood of contribution by the other significant parties has not been established.

Disclosure of the nature and terms of cost-sharing arrangements with other potentially responsible parties.

The extent to which disclosed but unrecognized contingent losses are expected to be recoverable through insurance, indemnification arrangements, or other sources, with disclosure of any material limitations of that recovery.

Uncertainties regarding the legal sufficiency of insurance claims or solvency of insurance carriers. FN49

FN49 The staff believes there is a rebuttable presumption that no asset should be recognized for a claim for recovery from a party that is asserting that it is not liable to indemnify the registrant. Registrants that overcome that presumption should disclose the amount of recorded recoveries that are being contested and discuss the reasons for concluding that the amounts are probable of recovery.

The time frame over which the accrued or presently unrecognized amounts may be paid out.

Material components of the accruals and significant assumptions underlying estimates.

Registrants are cautioned that a statement that the contingency is not expected to be material does not satisfy the requirements of FASB ASC Topic 450 if there is at least a reasonable possibility that a loss exceeding amounts already recognized may have been incurred and the amount of that additional loss would be material to a decision to buy or sell the registrant's securities. In that case, the registrant must either (a) disclose the estimated additional loss, or range of loss, that is reasonably possible, or (b) state that such an estimate cannot be made.

Question 4: What disclosures should be furnished with respect to site restoration costs or other environmental remediation costs? FN52

FN52 Registrants are reminded that FASB ASC Subtopic 410-20, Asset Retirement and Environmental Obligations-Asset Retirement Obligations, provides guidance for accounting and reporting for costs associated with asset retirement obligations.

Interpretive Response: The staff believes that material liabilities for site restoration, post-closure, and monitoring commitments, or other exit costs that may occur on the sale, disposal, or abandonment of a property as a result of unanticipated contamination of the asset should be disclosed in the notes to the financial statements. Appropriate disclosures generally would include the nature of the costs involved, the total anticipated cost, the total costs accrued to date, the balance sheet classification of accrued amounts, and the range or amount of reasonably possible additional losses. If an asset held for sale or development will require remediation to be performed by the registrant prior to development, sale, or as a condition of sale, a note to the financial statements should describe how the necessary expenditures are considered in the assessment of the asset's value and the possible need to reflect an impairment loss. Additionally, if the registrant may be liable for remediation of environmental damage relating to assets or businesses previously disposed, disclosure should be made in the financial statements unless the likelihood of a material unfavorable outcome of that contingency is remote. FN53 The registrant's accounting policy with respect to such costs should be disclosed in accordance with FASB ASC Topic 235, Notes to Financial Statements.

FN53 If the company has a guarantee as defined by FASB ASC Topic 460, Guarantees, the entity is required to provide the disclosures and recognize the fair value of the guarantee in the company's financial statements even if the "contingent" aspect of the guarantee is deemed to be remote.

Announcements Made by SEC Staff at Emerging Issues Task Force (EITF) Meetings

SEC Staff Announcement: Accounting for Legal Costs Expected to Be Incurred in Connection with a Loss Contingency

450-20-S99-**2** The following is the text of SEC Staff Announcement: Accounting for Legal Costs Expected to Be Incurred in Connection with a Loss Contingency.

Dates Discussed: January 23, 1997; March 24-25, 1999

The Task Force discussed a potential new issue relating to the accounting for legal costs expected to be incurred in connection with a FASB Statement No. 5, Accounting for Contingencies, loss contingency. Some Task Force members observed that they believe practice typically has expensed such costs as incurred; however, other Task Force members suggested that practice may not be consistent in this area. The Task Force declined to add this potential new issue to its agenda.

The SEC Observer noted that the SEC staff would expect a registrant's accounting policy to be applied consistently and that APB Opinion No. 22, Disclosure of Accounting Policies, requires disclosure of material accounting policies and the methods of applying those policies.

450-**30 - Gain Contingencies**

450-30-**00 - Status**

> **General Note:** The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

450-30-00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Commencement Date of the Lease (Commencement Date)	Added	Accounting Standards Update No. 2016-02	02/25/2016
Contract	Added	Accounting Standards Update No. 2016-02	02/25/2016
Direct Financing Lease	Amended	Accounting Standards Update No. 2021-05	07/19/2021
Direct Financing Lease	Added	Accounting Standards Update No. 2016-02	02/25/2016
Finance Lease	Added	Accounting Standards Update No. 2016-02	02/25/2016
Lease	Added	Accounting	02/25/2016

		Standards Update No. 2016-02	
Lessee	Added	Accounting Standards Update No. 2016-02	02/25/2016
Lessor	Added	Accounting Standards Update No. 2016-02	02/25/2016
Operating Lease	Added	Accounting Standards Update No. 2016-02	02/25/2016
Sales-Type Lease	Amended	Accounting Standards Update No. 2021-05	07/19/2021
Sales-Type Lease	Added	Accounting Standards Update No. 2016-02	02/25/2016
Underlying Asset	Added	Accounting Standards Update No. 2016-02	02/25/2016
Variable Lease Payments	Added	Accounting Standards Update No. 2016-02	02/25/2016
450-30-60-5	Amended	Accounting Standards Update No. 2016-02	02/25/2016

450-30-**05 - Overview and Background**

> **General Note:** The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

450-30-05-**1** This Subtopic provides guidance for the recognition and disclosure of a gain contingency.

450-30-05-**2** This Subtopic, in combination with Subtopics 450-10 and 450-20, provides general guidance regarding gain and loss contingencies. Other Topics include gain or loss contingencies related to those specific Topics. Therefore, the Contingencies Topic does not include all standards related to contingencies. While not intended to be all-inclusive, the following Relationships Sections within the Contingency Subtopics provide links to many Topic-specific contingencies:

a. See Section 450-10-60 for references to other standards related to uncertainties that could result in either a gain or a loss.

b. See Section 450-20-60 for references to other standards related to uncertainties that could result in a future loss.

c. See Section 450-30-60 for references to other standards related to uncertainties that could result in a future gain.

450-30-**15 - Scope and Scope Exceptions**

> **General Note:** The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General

Overall Guidance

450-30-15-**1** This Subtopic follows the same Scope and Scope Exceptions as outlined in the Overall Subtopic, see Section 450-10-15.

450-30-**20 - Glossary**

> **General Note:** The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

Commencement Date of the Lease (Commencement Date)

The date on which a lessor makes an underlying asset available for use by a lessee. See paragraphs 842-10-55-19 through 55-21 for implementation guidance on the commencement date.

Contract

An agreement between two or more parties that creates enforceable rights and obligations.

Direct Financing Lease

From the perspective of a lessor, a lease that meets none of the criteria in paragraph 842-10-25-2but meets the criteria in paragraph 842-10-25-3(b)and is not an operating lease in accordance with paragraph 842-10-25-3A.

Finance Lease

From the perspective of a lessee, a lease that meets one or more of the criteria in paragraph 842-10-25-2.

Gain Contingency

An existing condition, situation, or set of circumstances involving uncertainty as to possible gain to an entity that will ultimately be resolved when one or more future events occur or fail to occur.

Lease

A contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration.

Lessee

An entity that enters into a contract to obtain the right to use an underlying asset for a period of time in exchange for consideration.

Lessor

An entity that enters into a contract to provide the right to use an underlying asset for a period of time in exchange for consideration.

Loss Contingency

An existing condition, situation, or set of circumstances involving uncertainty as to possible loss to an entity that will ultimately be resolved when one or more future events occur or fail to occur. The term loss is used for convenience to include many charges against income that are commonly referred to as expenses and others that are commonly referred to as losses.

Operating Lease

From the perspective of a lessee, any lease other than a finance lease. From the perspective of a lessor, any lease other than a sales-type lease or a direct financing lease.

Sales-Type Lease

From the perspective of a lessor, a lease that meets one or more of the criteria in paragraph 842-10-25-2 and is not an operating lease in accordance with paragraph 842-10-25-3A.

Underlying Asset

An asset that is the subject of a lease for which a right to use that asset has been conveyed to a lessee. The underlying asset could be a physically distinct portion of a single asset.

Variable Lease Payments

Payments made by a lessee to a lessor for the right to use an underlying asset that vary because of changes in facts or circumstances occurring after the commencement date, other than the passage of time.

450-30-**25 - Recognition**

> **General Note:** The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General

450-30-25-**1** A contingency that might result in a gain usually should not be reflected in the financial statements because to do so might be to recognize revenue before its realization.

450-30-**50 - Disclosure**

> **General Note:** The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

450-30-50-**1** Adequate disclosure shall be made of a contingency that might result in a gain, but care shall be exercised to avoid misleading implications as to the likelihood of realization.

450-30-**60 - Relationships**

> **General Note:** The Relationships Section contains links to guidance that may be helpful to, but not required by, a user of the Subtopic. This Section may not be all-inclusive. The relationship items are organized according to the Topic structure in the Codification.

General

Balance Sheet

450-30-60-**1** For the determination of whether a receivable resulting from the recognition of a gain contingency may be offset against an existing liability, see Section 210-20-45.

Income Statement

450-30-60-**2** For the presentation of business interruption insurance recoveries in the income statement, see Section 220-30-45.

450-30-60-**3** For disclosure of information about business interruption insurance recoveries, see Section 220-30-50.

Other Expenses

450-30-60-**4** For recognition of insurance recoveries by an entity insured through a purchased retroactive insurance contract (other than for core insurance operations of an insurance entity), see paragraph 720-20-25-3.

Leases

450-30-60-**5** For a lessor's accounting for income from variable lease payments, see paragraphs 842-30-25-2 (for sales-type leases), 842-30-25-9 (for direct financing leases), and 842-30-25-11 (for operating leases).