

MINUTES



**To:** Board Members  
**From:** Prince (x229)  
**Subject:** Minutes of the August 27, 2008 Board Meeting: Going Concern and Subsequent Events      **Date:** September 3, 2008  
**cc:** Golden, Bielstein, Stoklosa, Proestakes, Leisenring, Glotzer, Smith, Mechanick, Posta, Glotzer, Gabriele, Chookaszian, Klimek, Allen, Intranet

*The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Statement, Interpretation, or FSP.*

Topic: Going Concern and Subsequent Events

Basis for Discussion: Board Handout

Length of Discussion: 9:00 to 9:20am

Attendance:

Board members present:	Herz, Batavick (phone), Linsmeier, Seidman, and Smith
Board members absent:	None
Staff in charge of topic:	Prince
Other staff at Board table:	Golden, Proestakes
Outside participants:	Bolash

### Summary of Decisions Reached:

At the August 27, 2008 meeting, the Board discussed its plans for incorporating guidance on subsequent events and going concern into U.S. GAAP.

With respect to the going concern guidance, the Board decided that:

1. The guidance should converge with IAS 1, *Presentation of Financial Statements*, and IAS 10, *Events after the Reporting Period*, supplemented by disclosure requirements in AICPA Statement on Auditing Standards No. 1, *Codification of Auditing Standards and Procedures*, AU Section 341, “The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern.”
2. The guidance should converge with IAS literature with respect to the time horizon for the going concern assessment.

The Board also affirmed the decisions it has reached to date on the subsequent events guidance. Specifically, the Board affirmed that:

1. The guidance should reflect the principles underpinning the current subsequent events guidance in existing accounting standards and in the auditing requirements contained in AICPA Statement on Auditing Standards 1, AU Section 560, “Subsequent Events.”
2. Certain minor differences between U.S. GAAP and IFRS should be eliminated or minimized. However, the guidance should not address inconsistencies or differences between U.S. GAAP and IFRS in the following areas:
  - a. Refinancing of short-term obligations
  - b. Curing breaches of borrowing covenants.
3. Subsequent events should be considered for adjustment to or disclosure in the financial statements through the date that the financial statements are issued or first available to be issued, and the date through which subsequent events have been considered should be disclosed in the notes to the financial statements.
4. The guidance will not amend existing standards that are considered to be inconsistent with the principles underpinning AU 560.

The Board decided that, to provide appropriate visibility to this new guidance for constituents, it will issue this guidance as new standards, preceded by an Exposure Draft

and comment period. The Board agreed upon a 60-day comment period. The new standards will be effective for financial statements issued after the codification is ratified.

The Board directed the staff to proceed to a draft of proposed Statements for vote by written ballot.

Objective of Meeting:

The objective of this meeting was for the Board to discuss its plans for incorporating guidance on Subsequent Events and Going Concern into the Accounting Standards Codification™ (Codification). The objective was met.

Matters Discussed and Decisions Reached:

**ISSUE 1—GOING CONCERN**

1. Mr. Prince stated that the Board has previously discussed two approaches on how to incorporate the Going Concern guidance into U.S. GAAP. The first approach is to issue guidance that converges with IAS 1 and IAS 10—including the time horizon for the going concern assessment—supplemented by disclosure requirements in AICPA AU Section 341. The second approach is to simply adopt the audit guidance as is, with only a slight modification to direct the guidance to the management of an entity.

**Staff Recommendation**

2. The staff recommended the first approach—convergence with IFRS.

**Board Vote**

3. The Board unanimously agreed with the staff's recommendation. In addition, the Board unanimously decided to adopt the language from IAS 1 (all available information about the future) on the type of information that should be considered in performing the going concern assessment.

**Board Comments**

4. Mr. Herz asked if any of the proposed changes would have an effect on current auditing literature. Mr. Golden noted that the staff has spoken with the SEC and PCAOB and that both these organizations recognize that changes to the auditing literature will likely need to be made. Mr. Bolash noted that the SEC and the PCAOB

didn't see any need to align the effective dates of amendments to the accounting literature with any corresponding amendments to the auditing literature.

5. The staff noted that, as proposed, the language of the going concern guidance will differ slightly from IFRS with respect to the type of information considered in making the going concern assessment. Mr. Linsmeier commented that there doesn't seem to be any substantive difference between the wording in the AICPA literature (an entity takes into account its knowledge of relevant conditions and events that exist at or have occurred prior to the date financial statements are issued) and IFRS (management takes into account all available information about the future).
6. Mr. Herz proposed that the going concern guidance use the language in IFRS. He noted that it would be better to try to converge. Ms. Seidman, Mr. Linsmeier, Mr. Batavick, and Mr. Smith agreed.
7. Mr. Smith commented that he would like to make sure constituents are made aware of the changes to the going concern guidance. He noted that the proposed change to the going concern guidance is significant. Mr. Golden recommended that the Board issue an Exposure Draft (rather than issue the guidance through the Codification) of the proposed guidance if the Board wishes to place emphasis on the proposed changes. Ms. Seidman commented that the economy has changed since the Board made the decision to issue this guidance through the Codification.
8. Mr. Herz, Mr. Linsmeier, and Ms. Seidman commented that they would like to issue an Exposure Draft. Mr. Smith and Mr. Batavick agreed. (See the "Other Matters Discussed" section below.)

## **ISSUE 2—SUBSEQUENT EVENTS**

### **Staff Recommendation**

9. Mr. Prince asked the Board to affirm the decisions it has reached to date on the Subsequent Events guidance. Those decisions are:
  - a. The guidance should reflect the principles underpinning the current subsequent events guidance in existing accounting standards and in the auditing requirements contained in AICPA Codification of Statements on Auditing Standards, AU Section 560, *Subsequent Events*.

- b. The Board will consider whether certain minor differences between U.S. GAAP and IFRS can be eliminated or minimized. However, the guidance should not address inconsistencies or differences between U.S. GAAP and international financial reporting standards in the following areas:
  - (1) Refinancing of short-term obligations
  - (2) Curing breaches of borrowing covenants.
- c. Subsequent events should be considered for adjustment to or disclosure in the financial statements through the date that the financial statements are issued or first available to be issued, and the date through which subsequent events have been considered should be disclosed in the notes to the financial statements.
- d. The Board will not seek to amend existing standards that are considered to be inconsistent with the principles underpinning AU 560.

**Board Vote**

- 10. The Board unanimously affirmed the decisions it has reached to date on the Subsequent Events guidance.

**Other Matters Discussed**

- 11. The Board decided that, to provide appropriate visibility to this new guidance for constituents, it will issue the Going Concern and Subsequent Events guidance as new standards, preceded by an Exposure Draft and comment period. The Board agreed upon a 60-day comment period. The new standards would be effective for financial statements issued after the codification is ratified.
- 12. The Board directed the staff to proceed to a draft of proposed Statements for vote by written ballot.

Follow-Up Items:

None.

General Announcements:

None.