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Mr. Russell G. Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7
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LETTER OF COMMENT NO. 21

File Reference: 1650-100
Re: Proposed FASB Statement, *Going Concern*

Dear Mr. Golden:

Deloitte & Touche LLP is pleased to comment on the FASB's proposed Statement, *Going Concern* (the "proposed Statement").

We support incorporating guidance on this subject in the accounting standards to assist management in its responsibility for assessing the entity's ability to continue as a going concern. Management's responsibility is currently inferred from the auditing literature (AICPA Statement on Auditing Standards No. 59 (AU Section 341), *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*) referred to in the proposed Statement. However, as described below, we have significant concerns about aspects of the guidance in the proposed Statement.

We acknowledge that the proposed Statement moves U.S. GAAP closer to IFRSs and we generally support global convergence of high-quality accounting standards. However, we do not support the Board's proposal to converge this guidance with certain aspects of the IASB's standard on presentation of financial statements. We believe that it would be problematic to introduce (1) an open-ended time horizon for a going-concern assessment and (2) what appears to be an expansion of the scope of the information to be considered in making the assessment. We also believe that because of the current legal and regulatory environment in the United States, applying such provisions might be unworkable. Accordingly, we recommend that the Board align the guidance in the proposed Statement with AU Section 341 rather than with the guidance in IAS 1, *Presentation of Financial Statements*. That is, we believe that generally accepted accounting principles should explicitly acknowledge management's responsibility to evaluate the entity's ability to continue as a going concern (1) for a period not to exceed 12 months from the balance sheet date and (2) on the basis of conditions and events that exist at or have occurred before the date the financial statements are issued or available to be issued. See our letter dated December 8, 2008, on the FASB's proposed Statement, *Subsequent Events*, regarding the use of "available to be issued."

Contrary to the Board's comments in the Basis for Conclusions of the proposed Statement, we believe that the guidance in the proposed Statement on the (1) open-ended time horizon, (2) information to be considered, and (3) interim assessments will **significantly change** practice both for management and an entity's auditors. The consequences of the change in practice will be particularly pronounced in light of the current economic environment and the broad uncertainty that exists in the credit markets.

We are also concerned that as a result of the Board's characterization of its proposed changes as not reflecting a change in practice, the proposed Statement may not have received the consideration it warranted from the Board's constituents. Accordingly, we encourage the Board to ensure that it receives sufficient feedback from preparers of financial statements regarding additional responsibilities and effort that would be required for compliance with this proposed Statement before issuing a final Statement.

Our additional concerns with the proposed Statement, which we believe must be addressed before any final Statement can be effectively or consistently applied, are discussed below.

Time Horizon

As indicated above, we believe that the time horizon in paragraph 4 of the proposed Statement, i.e., that management should "take into account all available information about the future, which is at least, but is **not limited to, 12 months** from the end of the reporting period" (emphasis added), will present significant challenges for both management and auditors. We believe that the guidance in the proposed Statement represents a significant change in practice. Specifically, we believe that this concept could be interpreted as requiring an assessment of going concern for a period without bounds. There is insufficient guidance in the proposed Statement to allow for an understanding of and support for information about what period in excess of 12 months from the end of the reporting period would be adequate for a going-concern assessment.

It is our understanding that the time horizon in the existing auditing literature — a period not to exceed 12 months — was an amendment to the previous requirement in AICPA Statement on Auditing Standards No. 34, *The Auditor's Consideration When a Question Arises About an Entity's Continued Existence*. SAS 34 did not include an explicit time horizon for auditors to consider in performing an assessment of an entity's ability to continue as a going concern. Consequently, auditors were required to consider conditions and events about the entity that could potentially occur in the 12-month period following the date of the financial statements. We understand that the Auditing Standards Board (ASB), at the time it was subsequently deliberating AICPA Statement on Auditing Standards No. 59, *The Auditor's Consideration on an Entity's Ability to Continue as a Going Concern*, was concerned about:

- Auditors being required to predict future events.
- Significantly more speculation being required on conditions and events that may occur after 12 months than on existing conditions and events.
- The availability of reliable information beyond a 12-month period when it is known that most entities prepare detailed budgets and forecasts for a 12-month period and that few go beyond the 12-month period.

To address these concerns, the ASB included in SAS 59 (subsequently codified in AU Section 341) a time horizon of "a reasonable period of time, not to exceed one year beyond the date of the financial statements being audited."

Further, we are concerned that the time horizon in the proposed Statement would cause a conflict with the time horizon used for management's existing responsibilities for disclosure of risks and uncertainties cited in AICPA Statement of Position 94-6, *Disclosure of Certain Significant Risks and Uncertainties*. SOP 94-6 defines near term as "[a] period of time not to exceed one year from the date of the financial statements." We note that the Board has carried forward the guidance in SOP 94-6 in

the Accounting Standards Codification without significant change. Because the definition of near term in SOP 94-6 is consistent with the extant definition of reasonable period of time in AU Section 341, the inclusion of an open-ended time horizon for an assessment of an entity's ability to continue as a going concern may cause undue complexity for management and confusion for users of financial statements.

It is our understanding that the Board's original intent was simply to codify management's existing responsibility for assessing an entity's ability to continue as a going concern that historically has been *inferred from AU Section 341*. *The Board has not yet undertaken a project to comprehensively consider management's responsibilities related to disclosure and assessments in the financial statements to ensure that they align*. We therefore support the Board's original plan to codify the guidance inferred from AU Section 341.

Information Considered

As drafted, paragraph 4 of the proposed Statement, which provides that management should "take into account **all available information about the future**, which is at least, but is not limited to, 12 months from the end of the reporting period" (emphasis added), will also present significant challenges for management as well as auditors. This language, notwithstanding the commentary of the Board to the contrary, appears to represent a significant departure from existing practice. Under AU Section 341, the going concern evaluation is based on "**knowledge of relevant conditions and events that exist at or have occurred** prior to the date of the auditor's report" (emphasis added). We thus respectfully disagree with the Board's assertion in paragraph A7 of the Basis for Conclusions of the proposed Statement that there is no significant difference between the wording in AU Section 341 and the proposed Statement in this regard. We believe that the wording in the proposed Statement could result in interpretations that diverge considerably from the practice that has developed under AU Section 341. The proposed Statement could be interpreted to require management to reach conclusions based not only on existing conditions and events, but also on future conditions and events that maybe distant and whose outcome may be unreliable.

The requirement for management to consider all available information is particularly concerning when the current economic environment is taken into account. For example, almost no professional economists, despite the availability of abundant economic data, predicted the current credit environment more than 12 months ago. Therefore, to expect management to make judgments about conditions and events that may exist or occur 18 or 24 months from now, or even later, may be unrealistic and impracticable.

In light of the additional information to be considered and open-ended time horizon, we are also concerned that users of financial statements may have expectations about what financial statements say about the future that do not reflect what was intended by management or do not even reflect what is possible. As noted above, the ASB, when deliberating SAS 59, was concerned about (1) auditors predicting future events beyond 12 months from the financial statement date and (2) the availability of reliable information beyond a 12-month period. We believe that the proposed Statement would require management to make predictions about conditions and events related to the entity, and that those predictions would necessarily be based largely on management's speculation of how future conditions and events will unfold. In addition, users of financial statements may perceive the absence of a conclusion by management regarding its doubt about an entity's ability to continue as a going concern as tantamount to management's assurance of the entity's continued existence without limit.

Lastly, we are concerned that management will be required to perform significant additional procedures to obtain all available information about the future to properly perform its going-concern assessment. The entity's auditors also would be required to perform auditing procedures on the information management obtains. These additional procedures most likely would be far more time-consuming and costly for both management and its auditors and would place a particular burden on an entity with limited resources. As a result of the additional time and effort it may present challenges for management to file their financial statements with regulatory agencies (or other stakeholders) in a timely manner. Ultimately, we believe the increased cost of these additional procedures to entities and their auditors would far outweigh any benefits to the users of financial statements.

Interim and Annual Assessments

We are concerned with the provision in paragraph 2 of the proposed Statement that a going-concern assessment should be performed for both interim and annual financial statements. We do not believe that the going-concern assessments that management would perform as of each interim date should require the same level of effort as the assessment performed on the annual date. The level of effort required to perform a going-concern assessment as of each interim period may not be cost-beneficial to preparers of financial statements or their shareholders. In addition, the increased level of effort may present challenges to management in filing interim financial statements with regulatory agencies in a timely manner. We believe that the Board should require the going-concern assessment to be performed as of each fiscal year-end date and between the year-end assessments when certain conditions and events occur (as discussed below). If those conditions and events occur, we believe the level of effort required by management should be the same level of effort as that performed at year-end. We believe this is consistent with the existing requirements for reissuance of an auditor's report in AU Section 9341.

Between the year-end assessments, management would need to remain aware of information about certain conditions and events that indicate there could be substantial doubt about the entity's ability to continue as a going concern. We believe those conditions and events are consistent with the conditions and events noted in paragraph 5 of the proposed Statement. If an adverse condition or event exists or occurs, management would then be required to update its going-concern assessment as of the interim reporting date in which the condition or event exists or occurred. Likewise, if management previously concluded that substantial doubt exists, and a subsequent favorable condition or event occurs that management believes may alleviate the substantial doubt, management would also update its going-concern assessment as of the interim reporting date.

In addition, we believe the Board should require disclosure of conditions and events that may cast substantial doubt about the entity's ability to continue as a going concern when those conditions or events occur near the end of an interim reporting period and prevent the entity from performing a going-concern assessment that reflects the conditions or events in time for the issuance of its interim financial statements.

Disclosure Requirements

We support the Board's objective to provide users of financial information with enhanced disclosures about an entity's ability to continue as a going concern. However, we believe that in addition to requiring enhanced disclosures, the Board should clarify that the final Statement requires explicit disclosure (in the notes to the financial statements) of management's conclusion that it has substantial doubt about the entity's ability to continue as a going concern, if that is the case. We believe that

explicit disclosure gives users of financial statements a clear understanding of management's conclusion regarding its assessment of the entity's ability to continue as a going concern and would be more beneficial than disclosures of **only** (1) the conditions and events that may cast doubt upon an entity's ability to continue as a going concern and (2) management's plans to alleviate those concerns.

In addition, we believe that the threshold for disclosing material uncertainties that may cast substantial doubt upon an entity's ability to continue as a going concern is unclear. It is not clear whether the disclosure requirements are triggered by material uncertainties that may occur in the future or are triggered only when the material uncertainties have already occurred. For example, negative trends, such as recurring operating losses or negative cash flows, are not uncertainties. These conditions may be perceived as not triggering the disclosure requirement. The proposed Statement does not appear to require disclosure when there are conditions and events that could raise doubt by users of financial statements about the entity's ability to continue as a going concern, but are not "material uncertainties" from management's perspective. The Board should clarify whether disclosure is only to be made when there is substantial doubt or when factors raise the possibility of substantial doubt about an entity's ability to continue as a going concern.

Also, it is not clear whether the Board intended that disclosure of conditions and events that may cast substantial doubt upon an entity's ability to continue as a going concern must be made if management has plans that it believes would mitigate the effects of those adverse conditions and events. We note that paragraphs 10 and 11 of AU Section 341 require the auditor to consider whether disclosure is warranted for both (1) the conditions and events that cast initial doubt upon the entity's ability to continue as a going concern and (2) the mitigating factors that alleviate the concerns. Paragraph 7(e) of the proposed Statement only appears to address the disclosure requirements of management's plans to mitigate the effect of the uncertainties and whether those plans alleviate substantial doubt regarding the entity's ability to continue as a going concern. Therefore, we believe that to avoid conflict with the disclosure requirements of the auditing literature, the Board should clarify in the final Statement that an entity must disclose not only management's plans to mitigate the effect of uncertainties (and whether those plans did in fact alleviate the substantial doubt regarding the entity's ability to continue as a going concern), but also the initial conditions and events identified that may cast substantial doubt about the entity's ability to continue as a going concern.

Other Comments

Definition of Going Concern

Paragraph 3 of the proposed Statement states, in part, "**An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease operations or has no realistic alternative but to do so.**" We believe this passage represents a significant change from current practice. That is, paragraph 1 of AU Section 341 states, in part, "Ordinarily, information that significantly contradicts the going concern assumption relates to the entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of business, restructuring of debt, externally forced revisions of its operations, or similar actions." While the proposed Statement suggests that an entity is unable to continue as a going concern when it must liquidate its assets and "wind down" the business, AU Section 341 suggests that the entity is unable to continue as a going concern when it is no longer able to pay its obligations as they come due. This might be viewed as similar to the difference between an entity filing for bankruptcy protection under Chapter 7 (proposed Statement) and one filing for protection under Chapter 11 (AU Section 341). Because we believe that the quoted passage would

result in a significant change in an entity's current going-concern assessment, we recommend that the Board align its definition of "going concern" with that in AU Section 341.

Prospective Financial Information

AU Section 341 discusses management's use of prospective financial information, particularly when that information is significant to management's plans to address the entity's ability to continue as a going concern. However, the proposed Statement does not discuss the use of prospective information by management in its assessment of the entity's ability to continue as a going concern. We believe that the Board should consider including guidance in the final Statement on the use of prospective financial information in management's assessment of an entity's ability to continue as a going concern, because using this information may be an integral part of management's plan. In addition, we believe the Board should consider whether the use of prospective financial information should require additional disclosure in the entity's financial statements.

Effective Date

We are also concerned about the effective date in the proposed Statement. As we previously indicated, management's responsibility regarding its assessment of the entity's ability to continue as a going concern is currently inferred from the auditing literature. If the proposal is issued as a final Statement in its current form, the requirements in the accounting and the auditing literature will differ. Therefore, we would encourage the Board to work with the AICPA and the PCAOB to ensure that the accounting and the auditing literature are aligned. Also, we would encourage the Board to consider an effective date that is consistent with the effective date of auditing standards that would amend the existing requirements in the auditing literature.

Deloitte & Touche LLP appreciates the opportunity to comment on the proposed Statement. If you have any questions concerning our comments, please contact John Sarno at (203) 761-3433 or Thalia Smith at (203) 423-4554.

Yours truly,

Deloitte & Touche LLP

cc: Robert Uhl