



September 24, 2013

Technical Director
Financial Accounting Standards Board
Via email to director@fasb.org

RE: File Reference No. 2013-300: *Presentation of Financial Statements (Topic 205):
Disclosure of Uncertainties about an Entity's Going Concern Presumption*

Dear Director:

The Accounting and Auditing Committee of The Ohio Society of CPAs is pleased to comment on the above-referenced exposure draft. The OSCPA committee represents CPAs in public practice and in business, across a range of industries and sizes of organizations.

The committee's responses to the questions in the draft follow:

1. *Defining going concern presumption:*

The proposed amendments would define going concern presumption as the inherent presumption in preparing financial statements under U.S. GAAP that an entity will continue to operate such that it will be able to realize its assets and meet its obligations in the ordinary course of business. Do you agree with this definition? If not, what definition should be used and why?

In principle, we agree with the definition of going concern presumption. We believe the criteria of realizing assets and satisfying obligations is easily understood which should lead to consistent application. However, we believe additional clarity surrounding "in the ordinary course of business" would be beneficial. Also, if "in the ordinary course of business" is an entity-specific determination, should the definition replace "in the ordinary course of business" with "in its ordinary course of business"?

2. *Management's responsibility:*

Currently, auditors are responsible under the auditing standards for assessing going concern uncertainties and for assessing the adequacy of related disclosures. However, there is no guidance in U.S. GAAP for preparers as it relates to management's responsibilities. Should management be responsible for assessing and providing footnote disclosures about going concern uncertainties? If so, do you agree that guidance should be provided in U.S. GAAP about the timing, nature, and extent of footnote disclosures about going concern uncertainties for SEC registrants and other entities? Why or why not?

We agree that management should be responsible for assessing and providing footnote disclosures about going concern uncertainties. We also agree that guidance for preparers should be included in U.S. GAAP for the related disclosures since the financial statements are the responsibility of the preparers. The auditor's role should be to audit those assertions and to opine accordingly.

3. *Footnote disclosures:*

Would the proposed amendments reduce diversity in the timing, nature, and extent of footnote disclosures and provide relevant information to financial statement users? If so, would the proposed disclosures for SEC registrants provide users with incremental benefits relative to the information currently provided under other sections of U.S. GAAP and under the SEC's disclosure requirements?

We agree that the proposed amendments would reduce the diversity in the footnote disclosures to some extent. The greater the clarity of the standards, a larger reduction in diversity can be realized. SEC requirements and guidance currently are used to provide additional direction to accounting disclosures and we believe that the proposed SEC disclosures could provide incremental benefits to existing disclosure requirements.

4. *Management objectivity:*

The proposed amendments would require management to evaluate going concern uncertainties and additionally, for SEC filers, to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern. An alternative view is that such evaluations should not be required because management would inherently be biased and, thus, the resulting disclosures would provide little incremental benefit to investors. Do you believe that an entity's management has the objectivity to assess and provide disclosures of uncertainties about the entity's ability to continue as a going concern? Why or why not? If not, please also explain how this assessment differs from other assessments that management is required to make in the preparation of an entity's financial statements.

We acknowledge management is inherently biased related to their company's ability to continue as a going concern. However, we believe an entity's management would have the necessary objectivity to perform the initial going concern assessment. Financial reporting already includes management interpretations and estimates which requires management objectivity.

We believe management is best informed to provide the necessary first assessment. An initial assessment by those less informed is more time consuming and less accurate. We also believe this assessment is inherent in managing a company. Management is continually assessing the company's ability to realize its assets and satisfy its obligations.

5. *Interim periods:*

At each reporting period, including interim periods, the proposed amendments would require management to evaluate an entity's going concern uncertainties. Do you agree with the proposed frequency of the assessment? If not, how often should the assessment be performed?

Yes, we agree that management should evaluate an entity's going concern uncertainties at each reporting period, including interim periods, which is consistent with other accounting requirements.

6. *SEC footnote disclosures:*

For SEC registrants, the proposed footnote disclosures would include aspects of reporting that overlap with certain SEC disclosure requirements (including those related to risk factors and MD&A among others). The Board believes that the proposed footnote disclosures would have a narrower focus on going concern uncertainties compared with the SEC's disclosure requirements. Do you agree? Why or why not? What differences, if any, will exist between the information provided in the proposed footnote disclosures and the disclosures required by the SEC? Is the redundancy that would result from this proposal appropriate? Why or why not?

We agree that the proposed footnote disclosures should be included in SEC financial statements even if they create some disclosure redundancies with other sections of the SEC filing, because we believe that the financial statements should be the primary source of financial information of the entity. Other current SEC requirements relate to liquidity, capital resources and other specific areas. We believe that the financial statements should be the primary source of financial information for both SEC and non-SEC entities, including information on going concern uncertainties.

7. *SEC related disclosures:*

For SEC registrants, would the proposed footnote disclosure requirements about going concern uncertainties have an effect on the timing, content, or communicative value or related disclosures about matters affecting an entity's going concern assessment in other parts of its public filings with the SEC (such as risk factors and MD&A)? Please explain.

We do not believe that the proposed footnote disclosure will have a significant effect on current related SEC disclosures because there are no conflicts in the disclosures. We believe that the most significant change would be to repeat or refer to the financial statement disclosures in other SEC disclosures.

8. *Forward-looking information:*

The proposed footnote disclosures about going concern uncertainties would result in disclosure of some forward-looking information in the footnotes. What challenges or

consequences, if any, including changes in legal liability for management and its auditors, do you anticipate entities may encounter in complying with the proposed disclosure guidance? Do you foresee any limitations on the type of information that preparers would disclose in the footnotes about going concern uncertainties? Would a higher threshold for disclosures address those concerns?

We believe that attorneys should be able to resolve any wording legal liability issues. Also, we do not believe that a higher threshold would address this problem.

9. Auditor challenges:

What challenges, if any, could auditors face if the proposed amendments are adopted?

The most significant challenge auditors will face will be to be in agreement with management on the need for going concern uncertainty disclosures. Currently, everyone knows it is the auditors' sole determination. The reporting entity's best course of action if they disagree with the auditor's decision to include this uncertainty in their report is to change auditors for the next year. Under the proposed standards, would the auditor still include their emphasis of a matter paragraph even if management does not believe that the disclosures are necessary? If so, would the auditors have to qualify their opinion because the disclosures are not made? Disagreement on the need of these disclosures could be more severe under the proposed standards.

10. Benefits versus costs:

Do the expected benefits of the proposed amendments outweigh the incremental costs of applying them?

Currently, we believe that the expected benefits outweigh the incremental costs.

11. Disclosure threshold:

Under the proposed amendments, disclosures would start at the 'more-likely-than-not' or at the 'known' or 'probable' threshold as described in paragraph 205-40-50-3.

a. Is the disclosure threshold appropriate? What are the challenges in assessing the likelihood of an entity's potential inability to meet its obligations for purposes of determining whether disclosures are necessary?

We believe that the disclosure thresholds are appropriate. The greatest challenge in the assessment is the subjectivity involved, especially in determining the ordinary course of business.

b. Are there differences between assessing probability in the context of transactions and assessing probability in the context of the overall state of an entity that are

meaningful to determining the appropriateness of a probability model for assessing substantial doubt?

Naturally assessing probabilities of the overall state of an entity and specific transactions are the same, but the assessment of the overall entity will include contradicting assessments of specific transactions. Accordingly, more guidance is necessary to determine how to evaluate these subjective contradictions.

- c. *Do the proposed amendments adequately contemplate qualitative considerations? Why or why not?*

We believe additional guidance is necessary to help evaluate qualitative considerations.

- d. *Do you believe that the guidance in paragraph 205-40-50-4 about information on how an entity should assess the likelihood of its potential inability to meet its obligations and the implementation guidance within the proposed amendments are helpful and appropriate? Why or why not?*

The guidance provided in paragraph 205-40-50-4 is helpful, but we believe that additional guidance is required in defining the ordinary course of business, such as the historical time period to be reviewed or quantitative boundaries.

- e. *Are your views the same for SEC registrants and non-SEC registrants?*

We do believe that these assessments should be the same for SEC and non-SEC registrants.

12. *24-month assessment:*

The proposed amendments would require an entity to assess its potential inability to meet its obligations as they become due for a period of 24 months after the financial statement date. Is this consideration period appropriate? Is it appropriate to distinguish the first 12 months from the second 12 months as proposed in the amendments? Why or why not?

We believe that any assessment greater than 24 months would be very difficult. We also believe that assessments greater than 12 months are also difficult, so the different criteria used within 12 and 24 months is appropriate.

13. *Ordinary course of business distinction:*

Under the proposed amendments, management would be required to distinguish between the mitigating effect of management's plans in and outside the ordinary course of business when evaluating the need for disclosures. Is this distinction relevant to determining if and when disclosures should be made? If so, explain how

management's plans should be considered when defining the two different disclosure thresholds.

The going concern presumption definition includes “in the ordinary course of business”. Therefore, distinguishing what management considers in and outside the ordinary course of business is necessary.

14. Ordinary course of business definition:

Do you agree with the definition of management's plans that are outside the ordinary course of business as outlined in paragraph 205-40-50-5 and the related implementation guidance?

We agree with the definition as outlined in paragraph 205-40-50-5. However, we have concerns with the consistency of its application given the limited guidance surrounding the “in the ordinary course of business” criteria.

15. Nature and extent of disclosures:

Do you agree with the nature and extent of disclosures outlined in paragraph 205-40-50-7? Should other disclosure principles be included?:

Overall, we agree with the disclosures included in paragraph 205-40-50-7. We presume that the answer would always be that the possible effect is that there is a possible going concern uncertainty. If so, we are not sure how this disclosure is helpful or maybe this fact should be required to be disclosed. We also do not know what is meant to be disclosed by item “c. management's evaluation of the significance of those conditions and events”.

16. Substantial doubt definition:

The proposed amendments define ‘substantial doubt’ as existing when information about existing conditions and events, after considering the mitigating effect of management's plans (including those outside the ordinary course of business), indicates that it is known or probable that an entity will be unable to meet its obligations within a period of 24 months after the financial statement date. Do you agree with this likelihood-based definition for substantial doubt? Do you agree with the 24-month consideration period? Why or why not? Do you anticipate any challenges with this assessment? If so, what are those challenges?

The 24-month consideration period is a long period to attempt to determine substantial doubt, especially taking into account items outside the ordinary course of business. Using the likelihood of known or probable is a more stringent criteria than the current reasonable doubt criteria. Accordingly, we believe that less substantial doubt disclosures would be issued under the proposed criteria, which would be less informative to users of the financial statements.

17. Management's evaluation of substantial doubt:

Do you agree that an SEC filer's management, in addition to disclosing going concern uncertainties, should be required to evaluate and determine whether there is substantial doubt about an entity's ability to continue as a going concern (going concern presumption) and if there is substantial doubt disclose that determination in the footnotes?

As we previously stated, one challenge with the proposed standards is the potential disagreement between management of the entity and the auditors about the need and contents to include the going concern disclosure. This challenge will increase regarding the substantial doubt disclosure. It is understandable how difficult it would be for management to make this determination for their entity. Therefore, we believe that management should not be asked to make this determination.

18. Non-SEC exemption:

Do you agree with the Board's decision not to require an entity that is not an SEC filer to evaluate or disclose when there is substantial doubt about its going concern presumption? If not, explain how users of non-SEC filers' financial statements would benefit from a requirement for management to evaluate and disclose substantial doubt.

We believe that significant accounting and auditing rules should apply to the financial statements of both SEC and non-SEC-filers. However, we believe that management of non-SEC filers will have even greater difficulty in determining substantial doubt than SEC filers. So, we agree with the Board that management of the non-SEC filers should not have to make this evaluation.

19. Substantial doubt determination as compared to auditing standards:

The Board notes in paragraph BC36 that its definition of 'substantial doubt' most closely approximates the upper end of the range in the present interpretation of substantial doubt by auditors. Do you agree? Why or why not? Assuming it does represent the upper end of the range of current practice, how many fewer substantial doubt determinations would result from the proposed amendments? If the proposed amendments were finalized by the Board and similar changes were made to auditing standards, would the occurrence of audit opinions with an emphasis-of-matter paragraph discussing going concern uncertainties likewise decrease and be different from what is currently observed? If so, by how much? Is such a decrease an improvement over current practice? Why or why not?

We agree with the Board that their definition of substantial doubt would most closely approximate the upper range in the auditor's presentation. As stated in our response to question 16, we do not believe that this would be an improvement to the current practice.

We appreciate the opportunity to comment on the Proposed Accounting Standards Update. If you have any questions about the committee's discussions, please contact me at dsteward@battellecpas.com.

Sincerely,

A handwritten signature in blue ink that reads "Dan Steward". The signature is written in a cursive style with a large initial "D".

Daniel P. Steward, CPA
Chair, Accounting and Auditing Committee
The Ohio Society of CPAs