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Technical Director
Financial Accounting Standards Board
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Via e-mail – **director@fasb.org**

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

Plante & Moran PLLC (Plante Moran) is the 13th largest public accounting firm in the United States and serves a wide range public and private entities in multiple industries. Following, please find our responses to the specific Questions for Respondents in the above referenced Exposure Draft.

**Question 1:** 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?

**Response 1**: Yes.

**Question 2:** 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?

**Response 2**: We strongly agree with the Board's proposal that management should be responsible for assessing and providing disclosures about going concern uncertainties. We agree that guidance regarding the nature, extent, and timing of footnote disclosures should be provided for in U.S. GAAP. As there is currently no requirement in U.S GAAP for assessing going concern uncertainties, any disclosures in the financial statements are made on a case-by-case basis at the discretion of management and the external auditors. The external auditor can often end up as the driving force for the disclosures, given the underlying auditing standards, if management does not initiate an assessment of the severity of the uncertainty. Including the guidance in U.S. GAAP will place the responsibility for the disclosures on management's shoulders and will also help reduce the diversity currently found in practice.

In addition, when external auditors or accountants are not involved with a company's financial statements, there is no guidance to require that going concern uncertainties be assessed. We do not believe that this lack of guidance is in the best interests of the users of those financial statements.

**Question 3:** 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?

**Response 3**: As noted in the previous response, we believe the proposed amendments will result in reduced diversity in the timing, nature, and extent of footnote disclosures related to going concern uncertainties. The proposed amendments would provide guidelines for when disclosures are required and what disclosures should be made.

We believe the proposed disclosures for SEC registrants will provide incremental benefits relative to the information currently provided under U.S. GAAP and SEC disclosure requirements. While the SEC requires disclosure of risk factors and uncertainties, there are no specific disclosure requirements related to going concern uncertainties. Currently, information about going concern uncertainties is typically spread throughout the Form 10-K. The proposed amendments would result in more focused disclosures related to going concern uncertainties. Requiring the disclosures to be made in the footnotes will also make the disclosures easier for users of the financial statements to find. In addition, by requiring the disclosures in the footnotes, the disclosures will be subject to audit procedures, which may result in more complete and objective disclosures.

**Question 4:** 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.

**Response 4**: We agree with the concern expressed by the Board that the potential for internal conflicts exists with management assessing the need for the going concern uncertainty disclosures. Management would be responsible for making an unbiased assessment of the success (or lack thereof) of the company's operations, etc. for this purpose, but would also be working to convince the marketplace of the expected successful outcome of management's efforts. There have always been disclosures that we believe are especially difficult for management to address in a fully unbiased fashion for various reasons. For example, management is required to make disclosures related to the potentially negative outcome of outstanding litigation, the company's association with related parties, and officers' compensation, all of which have the potential to be perceived negatively by the financial community, including regulators. For public companies, management must also perform an assessment of the operating effectiveness of internal controls over financial reporting and publicly disclose any material weaknesses. In these instances, while there may be incentive for management to avoid disclosing potentially damaging information, the standard-setters or regulators have determined that management has the required objectivity to perform these assessments and to make these disclosures. We believe that the requirement for management to assess the need for the going concern uncertainty disclosures is not different from the examples noted above, although we acknowledge the going concern disclosures may be a more direct reflection on the quality of management performance. We believe management is in the best position to perform the assessment, given its access to information and its knowledge of entity operations, and would be required to be sufficiently objective to perform the assessment (just as it is for the other disclosure requirements listed above) or risk having to report a material weakness in its internal controls over financial reporting.

In addition, by requiring the disclosures in the footnotes, the disclosures will be subject to audit procedures, if the financial statements are audited, which may result in more complete and objective disclosures.

**Question 5:** 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?

**Response 5**: Yes.

**Question 6:** 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?

**Response 6:** We believe the proposed footnote disclosures for SEC registrants would provide incremental benefits over current SEC disclosure requirements. While current SEC requirements include disclosure of risks and uncertainties, there are no specific disclosure requirements related to going concern uncertainties. Therefore, the proposed disclosure requirements would result in more specific disclosures related to going concern uncertainties. In addition, the proposed amendments would move the disclosures related to uncertainties into the financial statements where they would be subject to audit procedures. We believe these factors more than offset any potential redundancy that would result from the proposed disclosures.

**Question 7:** For SEC registrants, would the proposed footnote disclosure requirements about going concern uncertainties have an effect on the timing, content, or communicative value of 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.

**Response 7**: We do not believe the proposed footnote disclosure requirements about going concern uncertainties would have a significant impact on the timing, content, or communicative value of related disclosures in other parts of public filings. Many of the disclosures in the proposed amendments are already required in different areas of the Form 10-K under current SEC disclosure requirements. The proposed amendments would require focused going concern uncertainty disclosures to be made in the footnotes, which would make the information more accessible to the users of the financial statements. We believe the primary change to the other sections of the public filings is that those disclosures may become more focused on specific going concern disclosures to remain consistent with the proposed financial statement disclosures.

**Question 8:** 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?

**Response 8**: We do not believe there would be significant challenges or consequences for management and its auditors in complying with the proposed disclosure guidance. Public companies are already required to make forward looking projections as part of their public filings. This forward looking information is accompanied by a disclaimer that forward looking projections may not be achieved. We would expect any forward looking statements made by management as part of the proposed disclosures would be accompanied by a disclaimer that forward looking projections may not be achieved.

We agree management may be reluctant to disclose information about going concern uncertainties if that information may be harmful to its future business operations or reflect negatively on management. However, we believe the result of the proposed standard would be improved disclosures about going concern uncertainties. In addition, by requiring the disclosures in the footnotes, the disclosures will be subject to audit procedures, if the financial statements are audited, which may result in more complete and objective disclosures.

We do not believe using a higher threshold for disclosure requirements would address these concerns.

**Question 9:** What challenges, if any, could auditors face if the proposed amendments are adopted?

**Response 9:** We do not believe there would be significant additional challenges if the proposed amendments are adopted. Current auditing standards already require that auditors make an assessment about an entity's ability to continue as a going concern. While the proposed amendments would make management responsible for the going concern assessment, there would not be a significant change in auditors' responsibilities compared to those currently required under the auditing standards.

**Question 10:** Do the expected benefits of the proposed amendments outweigh the incremental costs of applying them?

**Response 10**: We do not believe there would be significant incremental costs associated with applying the proposed amendments and these costs would be outweighed by the benefits of the disclosures.

**Question 11:** 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?

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?

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

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?

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

**Response 11**:

a. We agree with the disclosure threshold in the proposed amendment. The primary challenge with the disclosures is the subjectivity required to determine if the disclosures are necessary. As noted in Response 4 above, given the nature of the disclosures, there could be an inherent bias on the part of management towards not making the disclosures.

b. U.S. GAAP already requires entities to assess probability in the context of the overall state of an entity in some limited circumstances. For example, when assessing whether or not a deferred tax asset valuation allowance is required, an entity must assess if it is more likely than not that the entity will be able to realize the benefit of the deferred tax asset. In this instance, the probability assessment is performed by management in the context of the overall state of the entity. In addition, management may be required to assess the probability of violating loan covenants in the future, which would also be performed in the context of the overall state of the entity. While there are differences between assessing probability in the context of transactions and in the context of the overall state of an entity, financial statement preparers and auditors are at least somewhat familiar with both types of assessments.

c. Yes.

d. Yes.

e. Yes.

**Question 12:** 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?

**Response 12:** We believe the proposed 24 month period for assessing an entity's potential inability to meet its obligations as they become due is appropriate. We also believe it is appropriate to distinguish between the first 12 months and the second 12 months. Given the difficulties in developing projections of future performance, the longer the time period covered by the projections, the less precise the projections become. As the projections for the second 12 months are less precise than for the first 12 months, we believe a higher threshold for disclosure requirements for the second 12 months is appropriate.

**Question 13:** 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.

**Response 13**: We agree a distinction should be made between the impact of mitigating effects of management's plans in and outside the ordinary course of business. We agree that when determining if going concern uncertainty disclosures are required, the determination should be made based on the anticipated results of the entity's core business operations, excluding the effect of management's plans outside the ordinary course of business. We also agree with the decision to include the anticipated effects of management's plans outside the ordinary course of business in the proposed disclosures. The inclusion of the anticipated effects of management plans outside the ordinary course of business in the proposed disclosures helps users of the financial statements both to better understand the severity of the entity's going concern uncertainties, and to assess the likelihood of success of these plans. We agree with the Board's conclusion in the proposal that determining if management's plans are outside of the ordinary course of business would be an entity specific determination based on the nature, magnitude, and frequency of the actions being considered.

**Question 14:** 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?

**Response 14**: Yes.

**Question 15:** Do you agree with the nature and extent of disclosures outlined in paragraph 205-40-50-7? Should other disclosure principles be included?

**Response 15**: We agree with the nature and extent of the disclosures outlined in the proposed amendments.

**Question 16:** 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?

**Response 16:** Yes, we agree with the likelihood-based definition of substantial doubt. We also believe the 24 month consideration period will provide improvements over the current 12 month consideration period in the auditing standards. Examples of these improvements include circumstances where (1) financial statements are issued beyond a reasonable time after the end of the fiscal year (within the first 12 month consideration period); (2) management plans may need a longer time frame for their effect to be manifested; and (3) the entity's debt agreements mature shortly after the end of the next fiscal year. We believe the primary challenges with using a 24 month consideration period will result from the difficulty in developing projections for a 24 month time period. This challenge will primarily be related to entities that do not routinely perform longer-term planning, as they may struggle to develop and support expectations for projections of more than one year.

For financial statements that are initially issued beyond a reasonable time after the end of the fiscal year, we suggest that the proposed amendments include a provision for a reasonable addition to the 12 and 24 month time frames currently proposed, in order to prevent a "waiting out" of the disclosure requirements. For example, if financial statements are not issued until the tenth month following the end of the fiscal year, we believe users of the financial statements have a reasonable expectation that the assessment of whether it is more likely than not that the entity will be unable to meet its obligations would extend for more than two months from the date the financial statements were issued. In addition, under the proposed wording, if financial statements are not issued until more than 12 months after the end of the fiscal year, going concern disclosures would only be required if it is known or probable that the entity would be unable to meet its obligations. Furthermore, if the financial statements are not issued until very late in the 24 month consideration period, then the known and probable evaluation could involve only a very short time frame. In instances such as these, we believe the users of the financial statements would benefit from a reasonable addition to the 12 and 24 month consideration periods.

**Question 17:** 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?

**Response 17:** Yes, we believe the users of public company financial statements will benefit from these additional disclosures.

**Question 18:** 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.

**Response 18:** We disagree 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 presumptions. We understand the Board received information from users that they do not think this is a significant disclosure; however, we believe that disclosure of substantial doubt would be useful to the users of the financial statements. In addition, while we believe the additional going concern uncertainty disclosures are an improvement over the current disclosure requirements, we believe there are additional incremental benefits to the users from the substantial doubt disclosures. We are especially concerned that, for instance, a private company's creditors may not fully understand this disclosure change and could draw some inappropriate conclusions caused by omission of the substantial doubt language, especially when the creditors would continue to see the language in public company financial statements.

Lastly, unless the AICPA's Auditing Standards Board amends the auditing standards for auditors of non-issuers, the requirement to assess a non-SEC filer's ability to continue as a going concern will still be present. However, instead of this being management's responsibility, it would remain the auditor's responsibility.

**Question 19:** 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?

**Response 19:** We agree with the Board's decision to set the definition of substantial doubt at the upper range of the interpretation of substantial doubt currently used by auditors. We believe that given the potential impact on an entity of making substantial doubt disclosures and the lengthier 24 month time frame, using the upper range threshold in the current auditing standards is the appropriate threshold.

We are unable to quantify whether the number of instances of audit opinions with emphasis-of-matter paragraphs discussing going concern uncertainties would increase or decrease as a result of the proposed amendments. While there will likely be a decrease in the number of emphasis-of-matter paragraphs as a result of the proposed standard using the upper range in the current auditing standards, this will likely be at least partially offset by the fact that the consideration period would increase from 12 months to 24 months. We believe the additional disclosures regarding going concern uncertainties required by the proposed amendments would provide information that allows users of the financial statements to assess the ability of the entity to continue as going concern even if the threshold for substantial doubt disclosures has not been achieved.

Thank you again for the opportunity to comment on this exposure draft. We would be pleased to respond to any questions the Board or its staff may have about these comments. Please direct any questions to Joan Waggoner at **joan.waggoner@plantemoran.com** or 312.980.2945, or David Grubb at **david.grubb@plantemoran.com** or 248.223.3745.

Very truly yours,

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