

24 September 2013

Technical Director Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, CT 06856-5116

Re: File Reference No. 2013-300

Thank you for the opportunity to comment on the *Disclosure of Uncertainties about an Entity's Going Concern Presumption* Exposure Draft (the "Proposal"). I have some experience with this topic since my company, Calloway's Nursery, Inc., addressed such audit and disclosure issues in its 2003 financial statements. In addition, I have been a Certified Public Accountant since 1985, performed independent audits with a public accounting firm, and prepared financial statements in conformity with under Accounting Principles Generally Recognized in the United States ("US GAAP") for over two decades.

These comments reflect my views, and not necessarily those of Calloway's Nursery, Inc.

I support the objective

I support the Board's initiative to require management to disclose substantial doubt about an entity's ability to continue as a going concern in US GAAP financial statements, and I believe there is broad agreement in both the preparer and auditor communities on this objective.

I don't support the Proposal

While the Proposal has many commendable features, I do not believe that the Proposal is the best way to accomplish this objective. A comprehensive accounting standard on this topic would have the virtues of cost-effectively enhancing disclosure, reducing diversity of practice, converging with International Financial Reporting Standards ("IFRS"), being auditable and avoiding undue potential for second-guessing and litigation. The Proposal has none of these attributes.

A more practical alternative

Before answering the questions in the Proposal, allow me to, first, suggest a practical, alternative approach to moving accounting standards forward.

Statement on Auditing Standards No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* ("SAS 59"), has been effective for financial statements since January 1989. Thus, it has been field tested for twenty-four years.

Yes, SAS 59 is an audit standard. However, its provisions have been successfully used to urge management consideration of such matters and to require appropriate disclosures. An accounting standard derived from the SAS 59 approach would be simple and cost-effective to implement for both preparers and auditors. SAS 59 provides:

- Acceptable definition of "going concern"
- Reasonable time period
- Description of appropriate disclosures

Managements who have had going concern doubts already know how to develop and document such plans, auditors already know how to audit them, and financial statement preparers already know how to disclose them.

Response to Questions

For brevity, I'm offering responses to only certain questions where I have the most relevant experience and knowledge.

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?

No. "Going concern presumption" is the presumed ability of an entity 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 operations, or similar actions. "Realization of assets" should not be part of this definition, since the going concern presumption is always limited to a period of time, while many assets have indefinite lives.

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?

Yes. The financial statements are management's responsibility. Failure to disclose a material uncertainty such as substantial doubt about the entity's ability to continue as a going concern is likely to make the financial statements misleading. However, the disclosure should be required for all financial statements, not just those of SEC registrants.

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?

Yes, the Proposal will provide relevant information. However, the disclosures should be required for all financial statements, not just those of SEC registrants.

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.

Yes, the entity's management should have the ability to objectively assess uncertainties about the entity's ability to continue as a going concern for a reasonable period of time. An inability to do that would call into question the competency of said management.

I understand that management may not always be objective in providing going concern uncertainty disclosures, and may not want to make them at all. That's why we have auditors.

The disclosures should be required for all financial statements, not just those of SEC registrants.

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?

Yes, I agree with the requirement to make the assessment at each reporting period.

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?

No. The appropriate threshold to trigger financial statement disclosure should be "management believes <u>there is</u> a substantial doubt". This judgment would be made when:

- Step 1 There are conditions and events that, when considered in the aggregate, indicate <u>there could be</u> substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, and
- Step 2 Management develops plans intended to mitigate the effects of such conditions and events, and
- Step 3 After considering whether those plans will mitigate the adverse effects and whether they can be effectively implemented, management concludes that <u>there is</u> substantial doubt about the entity's ability to continue as a going concern.

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?

No. A "reasonable period of time" is a reasonable period of time, not to exceed one year beyond the date of the financial statements.

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.

No. Disclosure should be required when there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time. This is only determined after considering whether management's plans will mitigate the adverse effects and whether they can be effectively implemented. There is no need to complicate the matter with two, separate, disclosure thresholds.

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?

No. Nor do I agree with the proposal that "their mitigating effect shall not be considered in determining whether disclosures are necessary". Such a distinction is arbitrary and artificial. In circumstances where "the ordinary course of business" has led to the existing uncertainty, it is quite likely that actions will need to be taken "outside the ordinary course of business" to address the uncertainty. Such plans should be evaluated on their merits, and not on an arbitrary classification.

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?

Yes, except in (a) and (e) replace "potential inability to meet its obligations" with "assessment of substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time".

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?

No, the twenty-four month period is too long. Furthermore the concept of "substantial doubt" has been field-tested for twenty four years by preparers and their auditors. "Substantial doubt" means substantial doubt. It doesn't mean "more likely than not", nor does it mean "known" or "probable".

Even though we already know how to apply the concept of "substantial doubt" from years of practice, let me offer this three-step approach to its practical application.

In Step 1, management identifies events and conditions such as negative trends, indications of possible financial difficulties, internal matters and external matters that have occurred, then:

- (1)(a) Management considers these events and conditions in the aggregate, and concludes that there is no substantial doubt, or
- (1)(b) Management considers these events and conditions in the aggregate, and concludes that it needs to develop plans to mitigate the adverse effects.

In Step 2, management develops plans intended to mitigate the effect of these events and conditions (upon result (1)(b)).

In Step 3, management concludes either:

- (3)(a) It believes such plans are likely to mitigate the events and conditions to the extent that a substantial doubt does not exist, or
- (3)(b) It does not believe such plans are likely to mitigate the events and conditions to the extent that a substantial doubt does not exist, or
- (3)(c) It does not believe that such plans can be effectively implemented to the extent that a substantial doubt does not exist.

Either result (3)(b) or (3)(c) would trigger the financial statement disclosure requirement resulting from "there is a substantial doubt about the reporting entity's ability to continue as a going concern".

Do you agree with the 24-month consideration period? Why or why not?

No. A "reasonable period of time" is a reasonable period of time, not to exceed one year beyond the date of the financial statements.

Do you anticipate any challenges with this assessment? If so, what are those challenges?

The assessment described in the proposal would be difficult to make and audit. The assessment in SAS 59 is well-established and should present no new difficulties to preparers or auditors.

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?

Yes, I agree with the need for disclosure. No, I don't agree with limiting the disclosure to SEC registrants.

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.

No. A user of a "non-SEC filer's" financial statements (for example, a lender, lessor or potential trading partner) would clearly benefit from knowing that there is substantial doubt about the entity's ability to continue as a going concern; for example, in determining whether and how to conduct business with the entity.

Thank you again for the opportunity to comment on the Proposal. I hope you find these comments to be helpful in your deliberations.

Regards,

CALLOWAY'S NURSERY, INC.

Daniel G. Reynolds

Vice President and Chief Financial Officer