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Ms. Susan M. Cosper Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116 24 September 2013

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

Dear Ms. Cosper:

We appreciate the opportunity to comment on the Financial Accounting Standards Board's (FASB or Board) Proposed Accounting Standards Update, *Presentation of Financial Statements: Disclosure of Uncertainties about an Entity's Going Concern Presumption* (the Proposed ASU).

We support the FASB's effort to develop a going concern model that would require preparers of financial statements to assess going concern uncertainties and provide more timely footnote disclosures on related events and conditions for each reporting period. Stakeholders have told the Board and the Center for Audit Quality (CAQ), among others, that current financial reporting practices could be improved to help them better understand the most significant risks facing an entity or provide them with disclosure of those risks in a more timely manner. We believe the disclosures provided by the Proposed ASU are fundamental to the preparation of the financial statements and should improve stakeholder understanding of significant challenges to a company's ability to continue as a going concern. However, we believe certain issues need to be addressed before any final guidance on the subject is published, as more fully detailed below.

We believe the proposed model would be a significant improvement over current practice in a number of aspects, including:

Clearly defining preparer's responsibilities

Currently, the primary guidance with respect to the evaluation of an entity's ability to continue as a going concern resides within U.S. auditing standards. Under the Proposed ASU, primary responsibility for this assessment would rest with preparers, which would be consistent with their overall responsibility for the preparation of the financial statements and related disclosures. This approach would also be generally consistent with responsibilities of entities that prepare financial statements under IFRS.

See, for example, the Center for Audit Quality's Summary of Workshop on the Evolving Role of the Auditor, Page 7 (link).





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# Providing more timely disclosure of going concern uncertainties

Investors and other users of financial statements have often criticized the current going concern reporting practice, which generally sees disclosure of going concern uncertainties only when substantial doubt exists. They say this model doesn't provide sufficiently timely information about challenges facing a company's ability to continue as a going concern. The Proposed ASU would enhance the current going concern reporting model by providing more timely disclosure of challenges facing an entity by (1) requiring disclosure of events and conditions at a lower threshold than substantial doubt, (2) requiring evaluation and disclosure of challenges at each reporting period and (3) expanding the measurement period beyond the current 12-month period. We believe these provisions would improve reporting in this area.

# Making certain key concepts clearer

Currently, key terms related to the evaluation of an entity's ability to continue as a going concern, such as "going concern" and "substantial doubt," are not defined either within the accounting or auditing standards. Providing definitions would promote consistency both in application as well as understanding among preparers, auditors and users of the financial statements.

However, while we support the FASB's efforts in this area, we believe there are a number of issues that require specific attention by the Board to make the Proposed ASU operational in practice. We refer the Board to the comment letter on the Proposed ASU provided by the CAQ, which reflects a number of specific concerns with the Proposed ASU along with suggestions to address the concerns and improve the standard. We support the suggestions raised in its letter, including the following:

Enhancements to the definitions of "going concern presumption" and "substantial doubt"

We believe the proposed definition of the "going concern presumption" is inconsistently applied and isn't aligned with other concepts in the Proposed ASU, in particular as it relates to the liquidation basis of accounting. We also believe the definition of "substantial doubt" should be enhanced to facilitate the identification of circumstances for disclosure that are severe enough to affect the normal functioning of the entity. We believe the suggestions in these areas would facilitate more consistent application of the Proposed ASU, as well as provide preparers, auditors and users of the financial statements with a better understanding of reporting in this area.

#### Enhancements to the disclosure thresholds

We believe the Board should consider using a "reasonably likely" threshold for initial disclosure of going concern uncertainties, rather than the proposed threshold of "more likely than not," because these evaluations typically do not lend themselves to a level of precision required in a "more likely than not" determination (i.e., greater than 50%). We are also concerned with the prospect that no disclosure would be required in close call (50% / 50%) type scenarios. Moreover, a "more likely than not" threshold may be too high to capture significant early stage liquidity issues. Instead, we believe a "reasonably likely" threshold is a more appropriate starting point and would result in earlier disclosure. In addition, we note that the term is well understood by public companies that follow the Securities and Exchange Commission's requirement to report trends or





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uncertainties that are "reasonably likely" to have a material effect on the company's financial condition or results of operations in Management's Discussion and Analysis.

Identifying conditions and events that should be evaluated for disclosure

The Proposed ASU notes that the disclosure assessment should be based on conditions and events that exist at the date the financial statements are issued. However, we are concerned that without further clarification, hindsight could be unfairly used to assert that any and all adverse conditions and events becoming transparent within 24 months following the date the financial statements are issued, even those the preparer could not reasonably be expected to know or foresee, should have been incorporated into the preparer's going concern disclosure evaluation. As such, we believe the Board should clarify, within the standard, that the going concern assessment is not intended to incorporate future matters that cannot reasonably be expected to be known to the preparer at the time the financial statements are issued. Examples would also help illustrate the concepts for preparers, auditors and users of the financial statements.

# Significant need for application guidance

We believe that the Board should provide additional application guidance in several areas to facilitate understanding and application of the provisions of the Proposed ASU, including the identification of events and conditions to be evaluated for disclosure, the evaluation of management's plans (including whether such plans are in the ordinary course of business) and the application of the proposed disclosure thresholds.

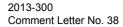
## Enhancements to the Proposed ASU's disclosure requirements

We note that the Proposed ASU would provide a scalable disclosure model under which preparers' disclosures would be more extensive as circumstances become more severe and additional information becomes available. We believe this would be an improvement over the current all-ornothing practice. However, we believe the Proposed ASU's disclosure requirements could be improved to provide additional information about the events or conditions giving rise to uncertainties and the potential effect of management's plans.

In addition to the suggestions and concerns raised by the CAQ in its letter to the Board, we raise the following matters:

## Private company considerations

As previously discussed, we support requiring entities to evaluate and disclose significant challenges to their ability to continue as going concerns. This would include requiring entities to evaluate whether there is substantial doubt about their ability to continue as going concerns and, if substantial doubt exists, disclose that determination in the financial statements. However, we do not agree with the Board's decision to require only SEC filers to make this assessment and related disclosures.





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We believe that the Board's rationale for having separate evaluation and disclosure requirements for private companies is unclear. We do not believe that there are any unique challenges faced by either private or public companies that should result in different requirements in this area. Current auditing standards require auditors of both public and private companies to consider whether there is substantial doubt about an entity's ability to continue as a going concern.

We understand that some constituents believe that an evaluation of substantive doubt should not be required of private company management because they would be inherently biased. We do not believe this evaluation differs from certain other significant assessments, such as the evaluation of possible impairments, accruals for litigation or other contingencies or the determination of the fair value of harder-to-value financial instruments. While we recognize that the assessment would be challenging due to the significant judgment required, we believe management of private entities are able to overcome any inherent bias in assessing going concern uncertainties, including whether substantial doubt exists.

Further, given the importance of this topic to financial statement users of both public and nonpublic entities, we believe that separate disclosure requirements could lead to confusion and misunderstanding of the reporting model. Such an outcome would undermine the benefits the Board is trying to achieve with the Proposed ASU.

Importance of working with other standard-setter and regulatory efforts

We note that the Proposed ASU is one of a number of initiatives by accounting and auditing standard setters and regulators around the world to improve the evaluation and reporting of matters that could affect an entity's ability to continue as a going concern. Among the standard setters and regulators working on such initiatives are the International Auditing and Assurance Standards Board, the International Accounting Standards Board, the United Kingdom's Financial Reporting Council and the Public Company Accounting Oversight Board. We believe these standard setters should continue to work together, and we encourage the FASB to do so as part of finalizing the Proposed ASU.

We would be pleased to discuss our comments with the Board or the FASB staff at your convenience.

Very truly yours,

Ernst + Young LLP