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File Reference No. 2013-300  
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September 17, 2013

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the FASB's Exposure Draft, *Presentation of Financial Statements (Topic 205), Disclosure of Uncertainties about an Entity's Going Concern Presumption* (the "ED").

We support the Board's efforts to add guidance to U.S. generally accepted accounting principles (GAAP) to provide consistency in determining when and how management should assess going concern uncertainties and when to make related disclosures.

Attached as an Appendix are our responses to the Questions for Respondents included in the ED. In addition, presented below are specific recommendations related to the disclosure threshold, applicability to private entities, and alignment with the auditing standards.

**Disclosure Threshold**

We agree with the ED's premise that providing a framework in the accounting literature that defines the timing, nature, and extent of footnote disclosures and the threshold for making such disclosures will improve the consistency, relevance and timeliness of information provided to financial statement users. However, while the *more likely than not* threshold is familiar to preparers because of its use in other areas of accounting guidance, we believe it will be challenging to apply in this instance. Given that *more likely than not* implies a precise point (greater than 50%), we believe some preparers may develop quantitative models in determining whether the threshold has been met rather than considering all applicable qualitative and quantitative factors. We believe it would be more appropriate for the threshold to be defined as a range, which would encourage preparers to evaluate both the quantitative and qualitative factors in a manner consistent with the intent of the ED.

**Applicability to private entities**

As written, the requirement to evaluate and disclose whether there is substantial doubt about an entity's ability to continue as a going concern would apply only to SEC filers. In our view, there is not a persuasive rationale to make a distinction in this requirement between SEC filers and non-SEC filers. We believe private company stakeholders would also benefit from disclosures about an entity's going concern presumption.
Alignment with the auditing standards

There are areas in which the ED will create inconsistencies with current auditing standards (e.g., the consideration period for assessing going concern uncertainties and the definition of going concern). In the event that the content and timing of projects currently being contemplated by the PCAOB and the ASB do not align with the ED, management's and the auditor's assessments would be performed under potentially conflicting standards. Differences could create operational challenges and confusion for users. Therefore, we recommend that the accounting and auditing standards to be issued are compatible; containing the same foundational principles and effective concurrently.

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If you have any questions, please contact Elizabeth Paul at (973) 236-7270 or Guy Raymaker at (973) 236-4104.

Sincerely,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Appendix

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?

We agree with the proposed definition of going concern presumption. However, while this definition is substantively the same as the description of the going concern assumption in AICPA AU-C 570 and PCAOB AU SEC 341, we believe that it is in the best interest of the users of the financial statements to have identical definitions in the auditing and accounting standards. Therefore, we encourage continued coordination between the accounting and auditing standard setters to ensure alignment of the final definition of going concern presumption.

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?

We agree that management should be responsible for assessing an entity’s ability to continue as a going concern and for making the related disclosures in the footnotes about going concern uncertainties. Management is in the best position to provide insight into the most significant risks to the entity’s ability to continue as a going concern and the entity’s plans to address such risks. It is appropriate that there be an accounting standard to provide guidance to management of both SEC registrants and other entities regarding the timing, nature, and extent of footnote disclosures about going concern uncertainties.

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?

We believe that providing an accounting framework that defines a threshold for making disclosures and the timing, nature and extent of such footnote disclosures will drive consistency and provide relevant information to financial statement users. We believe the disclosures proposed for SEC registrants would have incremental benefits. However, as discussed in our response to Question 6, we believe such disclosures should be equally applicable to non-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.

We believe management has the ability to make an objective going concern assessment. Currently, management is required to apply similar objectivity in other areas of U.S. GAAP, e.g., in determining whether a valuation allowance for deferred tax assets is needed and whether goodwill is impaired. In addition, IFRS currently requires management to perform a going concern assessment. Management is in the best position to provide insights into the most significant risks to the organization, which provides an inherent advantage in assessing an entity’s ability to continue as a going concern.

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?

We agree with the proposed frequency of the assessment. Having management perform the evaluation at each reporting period will benefit users by providing timely information about events or conditions that could affect an entity’s ability to continue as a going concern. The level of effort and/or disclosures associated with the interim assessment will depend on an entity’s specific facts and circumstances. While the interim assessment will require incremental effort for preparers, we believe the potential benefits are worth the incremental effort.

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?

We agree that the proposed footnote disclosures have a narrower focus on going concern uncertainties as compared with the SEC’s disclosure requirements. For example, the disclosures in the Liquidity and Risk Factors sections of periodic filings, which are required by S-K 303(a)(i) and S-K 503(c) are much broader than what the FASB is proposing companies disclose in the footnotes. S-K 503(c) requires discussion of the most significant risks faced by the company which would include all relevant risks as opposed to a narrower focus of events or conditions that could impact an entity’s ability to continue as a going concern. S-K 303(a)(i) requires disclosure of known trends, demands, commitments, events or uncertainties that are reasonably likely to materially change liquidity. This requirement is a different threshold (i.e., “reasonably likely” versus “more likely than not”) and is broader in focus.

We believe that the proposed footnote disclosures will comprise a subset of the information found in other parts of the document that will be meaningful to users of the financial statements. In addition, as part of the annual financial statements, the information within the proposed footnote disclosures will be subject to the auditor’s opinion. We believe that any potential redundancies in disclosure between SEC requirements and the proposed disclosures would be limited given the specific focus of the ED disclosure requirements.
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.

The disclosures in other parts of the periodic reports are driven by different rules and disclosure thresholds (as discussed in our response to Question 6). However, the proposed footnote disclosure requirements could impact the timing and content of certain related disclosures elsewhere in SEC filings if preparers choose to conform their disclosures throughout the document.

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?

Management may be challenged in balancing the requirement to provide disclosures about going concern uncertainties with the potential to reveal potentially sensitive information about the company given the risk that such disclosures could become a self-fulfilling prophecy.

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

Currently, the auditing literature does not define "substantial doubt." Having a formal definition will help to drive consistency in the auditor's assessment. However, there are areas in which the ED will create inconsistencies with the auditing standards, such as the consideration period for assessing going concern uncertainties and the definition of going concern. In the event that the content and timing of projects currently being contemplated by the PCAOB and the ASB do not align with the ED, management's and the auditor's assessments would be performed under separate standards with different assessment periods, which could potentially result in different conclusion regarding "substantial doubt." Therefore, we believe that coordinated changes in the auditing literature would be beneficial to all stakeholders.

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

There may be incremental effort for some preparers to establish more formalized processes and controls to regularly monitor conditions or events that could impact their going concern presumption. As discussed in our response to Question 5, the level of effort will depend on a company's particular facts and circumstances. Therefore, it is difficult to quantify the costs of implementing this ED; however, we believe adoption of the ED would be beneficial to users of the financial statement.
**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?

While more likely than not is familiar to preparers because it is used in other areas of accounting guidance, we believe that because it implies a precise point, some preparers may attempt to develop solely quantitative models in determining whether the threshold has been met rather than considering all applicable quantitative and qualitative factors. Due to inherent uncertainties in estimating the outcomes of future events, we believe that a range would be more appropriate and would encourage preparers to evaluate the various factors in a manner consistent with the intent of the ED.

In addition, we believe the term "known" included within the "known or probable" threshold may be redundant because preparers could interpret "known" to have the same meaning as knowable, in which case the "probable" threshold would be sufficient to capture any such events and circumstances. Therefore, we recommend that the second disclosure threshold be limited to "probable."

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?

While there may be differences in the method used to assess the probability of a transaction as opposed to the method used to assess the overall state of an entity, we do not believe they are meaningful to determining the appropriateness of a probability model for assessing substantial doubt. For example, it may be possible to use solely quantitative inputs and assumptions to determine the probability of certain transactions (e.g., historical forfeiture rates of share-based compensation awards). However, assessing the overall state of an entity is often dependent on a variety of considerations and therefore may require both quantitative and qualitative factors. Therefore, while the method of assessing probability may be different, the use of a probability assessment is still appropriate.

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

We believe that the proposed amendments adequately contemplate qualitative considerations. However, as written, the proposed disclosure thresholds may drive preparers towards a quantitative model as discussed in our response to Question 11(a). Therefore, we would suggest using a range to encourage and facilitate qualitative considerations, which are important to the going concern assessment.

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?

While the guidance in paragraph 205-40-50-4 is helpful, we believe that, when paired with the implied precision of a more likely than not threshold, preparers may struggle with how to consider such events and conditions. Therefore, we believe a range would be preferable to reduce operational challenges for preparers.

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

Yes, our views discussed above are the same for SEC registrants and non-SEC registrants.
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?

Current auditing standards limit the assessment period to 12 months from the balance sheet date. It is increasingly difficult to accurately forecast events or circumstances the longer the period from the balance sheet date. We believe, however, that the probable threshold for the 24 month consideration period appropriately balances the desire of users for information and the inherent uncertainty of longer range projections.

We further believe, given the inherent uncertainty, the guidance in paragraph 205-40-50-2 should state that the assessment be limited to events or conditions that both exist and are known or knowable when the financials are released. In this way, preparers would not be held responsible for failing to include such information within the assessment if the events or conditions were not known or knowable at the time the assessment was performed.

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.

We believe that transparent disclosure of the events and conditions giving rise to concerns about an entity’s ability to continue under the going concern presumption as well as management’s plans to address those concerns are important to stakeholders. As such, we agree with the ED’s requirement that the disclosure threshold is met without contemplating the mitigating effect of management’s plans that are outside the ordinary course of business. Management’s plans that are outside of the ordinary course of business are inherently less predictable and subject to more execution and other risks than plans in the ordinary course of business. The proposed model will allow users to evaluate management’s plans to address the events and conditions giving rise to the disclosure and put users in the position to separately evaluate the likelihood that plans in and outside the normal course of business are achievable and/or beneficial to the entity.

If management’s plans outside the ordinary course of business were factored into the disclosure threshold, there would be less information provided to users than what is currently being proposed. As such, we agree with the current proposal for two different thresholds; considering management’s plans within the ordinary course of business for initial going concern disclosures and outside the ordinary course of business for highlighting management’s conclusion about substantial doubt.

The illustrative guidance within the ED provides relevant guidance on how management plans would be considered. However, judgment will be required to distinguish between the two different disclosure thresholds given that the assessment is entity specific.

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?

We agree with the definition of management’s plans that are outside the ordinary course of business outlined in paragraph 205-40-50-5 and the related implementation guidance. However, while we agree that management’s intent in undertaking the plan should be considered in the determination, we also believe that past practice and ability to execute the plan are important factors to consider. The proposed guidance in the illustrative examples may not be sufficient to result in consistent interpretation and application of whether management’s plans are considered outside the ordinary course of business. Therefore, preparers may benefit from additional guidance around how to apply the nature, magnitude and frequency criteria, similar to the considerations outlined in paragraphs 31 and 32 of the basis for conclusions.
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?

We generally agree with the nature and extent of disclosures outlined in paragraph 205-40-50-7. In addition to the proposed disclosures, given that the disclosure threshold can be met in one of two ways (more likely than not within 12 months, or known or probable within 24 months), we believe it would be helpful for preparers to indicate which threshold was met.

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?

We agree with the likelihood-based definition of substantial doubt and the 24 month consideration period. We believe that the potential concerns of preparers identified in our response to Question 8 would also be applicable to the proposed substantial doubt disclosures.

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?

We agree that it is important for SEC filers to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern. However, we believe this is important for all users and, therefore, should also apply to non-SEC filers. Further, in our view, there is not a persuasive rationale to make a distinction in this requirement between SEC and non-SEC filers. We believe private company stakeholders would also benefit from disclosures about an entity’s going concern presumption.

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. As indicated in our response to Question 17, we believe that disclosure of substantial doubt about a company’s going concern presumption is of fundamental interest to users of all financial statements and not just those of an SEC filer.

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?

The auditing standards do not define substantial doubt. Therefore, auditors apply judgment based upon each company’s facts and circumstances which may result in diversity in practice. Auditors also have the ability to use an emphasis of a matter paragraph, pursuant to SAS 58, to highlight liquidity or other significant matters in their opinion, even if the substantial doubt threshold is not met. Therefore, it is difficult to calculate the impact of the proposed standard on all audit reports.