September 24, 2013

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

RE: File Reference 2013-300

To Whom It May Concern:

One of the expressed goals of the Texas Society of Certified Public Accountants (TSCPA) is to speak on behalf of its members when such action is in the best interest of its members and serves the cause of Certified Public Accountants in Texas, as well as the public interest. The TSCPA has established a Professional Standards Committee (PSC) to represent those interests on accounting and auditing matters. The views expressed herein are written on behalf of the PSC, which has been authorized by the TSCPA Board of Directors to submit comments on matters of interest to the committee membership. The views expressed in this letter have not been approved by the TSCPA Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the TSCPA.

We are happy to have the opportunity to respond to the above-referenced exposure draft (ED) concerning Disclosure of Uncertainties about an Entity's Going Concern Presumption. Our answers to the questions posed in the ED are provided below.

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 are in agreement with the definition.

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 the extent of footnote disclosures about going concern uncertainties for SEC registrants and other entities? Why or why not?
We are of the opinion that management has the responsibility to assess going concern uncertainties, and accordingly, provide footnote disclosures related to such uncertainties. This responsibility should apply to SEC registrants, as well as non-registrants.

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 the proposed amendments would serve to reduce diversity in the timing, nature, and extent of footnote disclosures. We further believe that the proposed amendments will serve to enhance GAAP disclosure requirements as they relate to going concern uncertainties.

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 an 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.**

While we believe that management should have the responsibility to evaluate going concern uncertainties, we find it difficult to speculate on the impact "management bias" would have on the tenor of management's disclosures about an entity's ability to continue as a going concern. Human nature suggests that such disclosures by management would be subject to a softer dialogue and a potential for more optimism than might be expressed by a truly unbiased observer.

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 do not agree with the frequency of the assessment. Even if the interim periods are quarterly reports, this poses a significant burden for management to make such an assessment. We suggest that management make reference to the year-end evaluation of going concern uncertainties in each interim period's report. However, we do recognize that events occurring during an interim period that are directly related to the going concern uncertainties issue, such as actions taken by the entity's Board of Directors should be reported on in the interim period.
When the going concern issue remains unchanged since the annual reporting period, a mere reference to the issue and its status quo in the interim report is sufficient.

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 believe the proposed footnote disclosures make sense for SEC registrants. In spite of the fact that these proposed disclosures may have a narrower focus than the comparable SEC required disclosures and that some level of redundancy may exist, we believe the disclosures provide a beneficial supplement to the disclosures required by the SEC.

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.

We do not believe the Board should be concerned with this aspect of the proposed footnote disclosures. If the disclosures are considered to be a necessary part of the reporting process, then they should be required.

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?

We see few, if any, incremental problems resulting from the implementation of the guidance provided in this ED. Regarding the liability issue, management will continue to have the same risk as they currently have when a going concern issue surfaces in an entity. As far as auditors are concerned, we believe their liability will also remain the same because their responsibility basically remains the same.

9. What challenges, if any, could auditors face if the proposed amendments are adopted?
As long as the time-frame remains at the 12-month window, we see little change in the challenges faced by the auditor. We believe increasing the window to 24 months will have a significant impact on the challenges, as well as the exposure auditors will face.

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

We consider this to be a moot question. The costs are probably going to increase, but there is basically no way to compare the increase in the quantitative cost to the increase in the qualitative benefits. If the new information is beneficial, then the cost to produce that information must be borne.

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?

We believe more guidance on the appropriate interpretation of the concepts (1) "more—likely-than-not" and (2) "known or probable" in the context of implementing the requirements of this ED would be most beneficial to those with the responsibility of providing disclosure.

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?

We are in complete disagreement with the notion of two separate periods. This notion adds an unnecessary level of complexity, which adds an additional burden to the reporting entity and may add confusion to some readers. If there is a known or probable going concern issue in a 24-month period, it would be more likely than not that the going concern issue existed in a 12-month period. This just adds a layer of complexity that is both unnecessary and inappropriate.
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 this is an artificial separation. The approach proposed in the ED uses two different yardsticks of measuring doubt that change as conditions change. Using such an approach can easily lead to illogical results. Consider the following example. Assume an entity decides that a more likely than not going concern uncertainty is present, excluding any mitigating effects management plans that are outside the ordinary course of business which include any plans specifically intended to mitigate such doubts. As a result, the entity decides to make the required additional disclosures. Further assume conditions worsen until the entity decides that there may be substantial doubt. Now management is allowed to consider mitigating effects of plans outside of the ordinary course of business. Also assume that throughout this chain of events, there has been a readily available plan, such as selling a non-essential asset at a large cash profit. As a result, management now concludes that there is no substantial doubt. Additionally, if management decides to actually sell the asset, it is no longer more likely than not that the entity even has a going concern uncertainty. Thus, the requirement to make the additional disclosures is no longer relevant. This example points out the problem with the proposed approach required in the ED. There are obvious benefits to accelerating the disclosure of going concern uncertainties. However, we strongly believe the same yardstick should be used throughout the time of the disclosure. Thus, the decision from the beginning should be whether it is more likely than not after a consideration of management’s plans for dealing with the going concern uncertainties. In this way, as doubt increases, there will be a continuity of disclosures.

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 are in basic agreement with the stated definition.

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

We agree with the nature and extent of the disclosures outlined in paragraph 205-40-50-7. However, paragraph 205-40-50-3 extends the period to 24 months, which we consider to be an inappropriate expansion of the time threshold.

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 have no problem with the likelihood-based definition, except for the desire to have some examples that focus on applying the concept of more likely than not. We do not agree with the 24-month consideration period. We see no need to expand the period by 12 months as it lends itself to a great deal of speculation and uncertainty that is counter-productive to the issues that surround going concern uncertainties.

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 totally agree that management should be required to evaluate and determine whether there is substantial doubt about an entity's ability to continue as a going concern and make appropriate disclosures in the footnotes. We have often wondered why this responsibility was placed on the auditors, but not on management.

18. Do you agree with the Board's decision not to require an entity that is not an SEC filer to evaluate and 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 strongly disagree with the Boards decision in this area. One of the primary reasons for undertaking this project was to remedy a situation where a GAAP issue was addressed in the auditing standards (GAAS). As such, it makes no sense to address only a portion of the problem. If the Board adopts its proposed carve out, and the current auditing standard doesn't change, auditors of non-SEC filers would continue to have to make their own decisions as to whether or not substantial doubt exists. Auditors of SEC filers, in contrast, would now have to conclude on management's decision. Thus, the auditors' responsibilities on this issue for public entities will, in effect, decrease. (Our assumption is that an auditor's conclusion on management's assessment results in less responsibility taken by the auditor than when the conclusion is solely the responsibility of the auditor.) In this scenario, what we end up with is a circumstance where GAAP would have gone from leaving the entire going concern issue up to GAAS to instead having GAAP dictate differences in the auditor's responsibilities under GAAS. This is a macro issue that deserves consideration on a broader field than just going concern.

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 the 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 do not agree that the definition of substantial doubt most closely approximates the upper end of the range in the present interpretation of substantial doubt by auditors. We fail to see any guidance as to a range. AU Section 341A.02-04 is unformulated in its directive for the auditor to evaluate substantial doubt. This open interpretation is one of the fundamental reasons for the proposed changes. Quantifying an upper end range base on the current interpretations appears to be highly speculative. Nonetheless, it seems the current objective should be to provide more guidance, and the increase or decrease in incidents of additional disclosures or opinion paragraphs is irrelevant. Regarding the occurrence of emphasis-of-matter audit opinions, we do not believe a decrease will occur or be different from what is currently observed. We believe the examples of Adverse Conditions in paragraph 205-40-55-3 will provide more direction, requiring more analysis and possibly lead to more incidents of emphasis-of-matter audit opinions. Additionally, the ED’s assessment period is longer (24 months) than that currently (not to exceed one year) in effect.

We appreciate the opportunity to provide input into the standard-setting process.

Sincerely,

Sandra K. Brown

Sandra K. Brown, CPA
Chair, Professional Standards Committee
Texas Society of Certified Public Accountants