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Technical Director
Director @fasb.org
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Re: FASB ED – ASU Topic 205 Disclosure of Uncertainties about an Entity’s Going Concern Presumption

The Accounting Principles and Auditing Standards Committee of the California Society of CPAs is pleased to respond to the June 26, 2013 Proposed Accounting Standards Update Presentation of Financial Statements (Topic 205) Disclosure of Uncertainties about an Entity’s Going Concern Presumption on behalf of the Society.

The Accounting Principles and Auditing Standards Committee ("Committee") of the California Society of Certified Public Accountants ("CalCPA") is the senior technical committee of CalCPA. CalCPA has approximately 40,000 members. The Committee includes 53 members, of whom 47 percent are from local or regional firms, 27 percent are from large multi-office firms, 12 percent are sole practitioners in public practice, 10 percent are in academia and 4 percent are in international firms. Members of the Committee are with firms which serve a large number of public and nonpublic business entities, as well as many nonbusiness entities such as NFPs, pension plans, and governmental organizations.

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?

- Yes, the Committee agrees with the proposed definition of the 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?
- Yes, management should be responsible for this assessment. As an important principle in preparing financial statements, guidance should be provided in U.S. GAAP concerning going concern uncertainties for SEC registrants and other entities. While SEC requirements may be well understood, the absence of going concern guidance in U.S. GAAP is an anomaly that should be fixed. For non-registrants, requirements are currently unclear and it should be provided in U.S. GAAP; in current practice, management is assessing going concern uncertainties informally using the auditing guidelines since U.S. GAAP does not currently provide such guidance.

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?

It will probably reduce diversity in practice for nonpublic entities since requirements will be clearly set forth in U.S. GAAP. We also believe that SEC registrants will benefit from having all of the requirements in one place in U.S. GAAP, although we are unsure that it will have much net effect on the going concern evaluation and related disclosures for 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.

- Entity management should possess the necessary objectivity. They prepare other disclosures that require analysis and judgment and they should be equally able to objectively assess and provide disclosure of going concern matters. Entity management also has the best information available to make such an assessment.

- This assessment can be deemed different in that it is an overall assessment of the future prospects of the entity. But an entity’s management and Board of Directors of SEC registrants have significant compulsion in today’s environment to look at this and make the assessment objectively. The same compulsion may not exist for nonregistrants, but this may be no more problematic than other issues.

- One factor that will compel management to be realistic in their assessment is that the auditor will be auditing the assessments and associated disclosures as part of the audit process.

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, the Committee agrees with the frequency of the assessment. We live in a rapidly changing world and quarterly is not too frequent an interval to make such assessments. Management should already be making these assessments regardless of whether there is a requirement to do so.

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?

- The Committee agrees because information contained in MD&A is more expansive and can even be used to expand on the discussion of going concern if necessary. The redundancy is appropriate since the disclosure has specific requirements as compared to other reporting areas within an SEC report. Excessive redundancy can be reduced by use of cross references.

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.

- No, since the evaluation is similar to what is already required.

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?

- Looking at the plans to address an issue inherently requires looking ahead and anticipating a result. This occurs with many estimates. A higher threshold would not be necessary, although there may be a need for management of some entities to establish new or formalize existing processes used to assess going concern.
- Achieving an appropriate balance of negative information and plans to mitigate its effect will always be a challenge, and different parties may assess the information and plans differently. However, this is not new issue; it is currently encountered in going concern assessments and disclosures.
- The Committee is not responding to questions of legal liability.

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

- A minor challenge is a possible inconsistency between the auditing and the accounting literature. The going concern auditing standard is currently looking at a reasonable period of time not to exceed one year after the financial statement date while the proposed accounting standard would have management looking at a 24 month period. The inconsistency would need to be resolved.
• We do not see other challenges as any different from what auditors currently encounter. In fact, the challenges may be reduced because management would now be responsible, in the first instance, to make the going concern assessment.

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

• Yes. In many cases, management looked to the auditing standards or the auditors when making the assessment of going concern so having clearly articulated guidance in the accounting literature will benefit management, and could actually result in lower costs.

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?

• The Committee is not unanimous on its views regarding question 11.
• Some are in agreement with the disclosure thresholds, and find the "two-step" approach useful. The largest challenge may be the 24-month assessment period, and we do not foresee that the "probable" threshold for disclosure will be met unless the entity is in severely adverse financial condition; the uncertainties in looking 24 months in the future in an unstable situation make "probable" a very high threshold. Historically, the 12-month period usually used in assessing whether there was substantial doubt about whether an entity was a going concern was problematic, but requiring that the assessment be made without considering actions outside the normal course of business should be helpful for both the 12-month and 24-month assessments. The proposed amendments adequately contemplate qualitative considerations and the guidance in paragraph 205-40-50-4 is helpful, but it should be recognized that each situation may be unique, and will require considerations beyond those in the proposed standard.
• Some feel that the attempt at using terms “more likely than not” and “probable” in this situation is counterproductive to user needs. Many people will consider more likely than not and probable to mean the same thing. As auditors we are aware of
the distinction that more likely than not is greater than 50 percent likelihood and probable is deemed a higher threshold, but some feel this is too much nuance for this issue. Therefore the threshold should be “substantial doubt”, but not as defined in the standard using the words “known” or “probable”. The definition of “substantial doubt” should be that information about existing conditions, after considering mitigating plans, indicates that it is more likely than not (greater than 50%) that the entity will be unable to meet its obligations as they come due within 12 months of the auditor’s report date. There are some who agree with this definition but feel the 12 months should be from the financial statement date since this is an accounting standard not an auditing standard.

- As far as assessing probability, the more complex the entity and the circumstances causing a going concern question, the more complex the assessment. However, this should not affect the probability model for assessing substantial doubt.
- Views 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?

- The Committee was not in agreement on this part of the proposed amendments.
- A slight majority felt the maximum period to evaluate going concern should be 12 months from the financial statement issuance date.
- Another group felt the period of evaluation should be a reasonable period of time without defining in months, similar to the international standard.
- A smaller number felt the period of evaluation should be 12 months from the balance sheet date.
- Another group found the "two step" approach useful, but felt it must be recognized that the probable threshold for the 24 month assessment will likely not be met unless the entity is in severely adverse financial condition. See our response to Question 11.

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.

- The distinction is relevant because plans outside the ordinary course of business would normally carry more risk. Disclosure should be made of plans in and outside the ordinary course of business, but more extensive disclosures of plans outside the ordinary course of business would be appropriate because they normally have greater risks than those in the ordinary course of business.

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?

- Yes, we agree with the definition and related implementation guidance.
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 agree with the nature and extent of disclosures as outlined in paragraph 205-40-50-7. No additional disclosures need be included.

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?

- The proposed standard does not require that disclosures of substantial doubt about an entity's ability to continue as a going concern be made for a non-SEC registrant; we believe that such disclosure should be required. It may just be a matter of emphasis, but these "magic words" are well understood, and not mandating them for non-registrants would be a step backwards in the quality of disclosure.

- As for the 24-month assessment period, see our response to Question 11.

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 with the required disclosure, and as stated in response to Question 16, believe it should be extended to non-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. See response to Question 16. Why are these user concerns different?

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?
• A majority of the members of the Committee agree with the Board's use of "substantial doubt." It is currently reasonably well understood. It is hard to say whether there will be more or fewer substantial doubt determinations under the 24-month period in the proposal, as compared with the 12-month period currently used. Further, since disclosures in financial statements will be required under the proposed standard, the emphasis paragraph in the auditor's report may not even be necessary.

• We suggest that the Board take steps to assure that the auditing literature of the AICPA and the PCAOB will reflect the Board's definition of "substantial doubt" before incorporating it into its proposed standard.

• A minority of the members of the Committee do not agree that the definition of substantial doubt most closely approximates the upper end of the range in the present interpretation. They feel nuances related to the upper or lower end of a range are largely lost on many users.

• Some of the members feel the use of an emphasis-of matter paragraph in audit reports would increase with this new standard, not decrease.

We would be glad to discuss our comments further should you have any questions or require additional information.

Very truly yours,

[Signature]

Michael D. Feinstein, Chair
Accounting Principles and Auditing Standards Committee
California Society of Certified Public Accountants