



December 8, 2008

Russell G. Golden, CPA  
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401 Merritt 7  
PO Box 5116  
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**Re: October 9, 2008 Exposure Draft (ED) of a Proposed Statement of Financial Accounting Standards, *Going Concern* [File Reference No. 1650-100]**

Dear Mr. Golden:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to act as an advocate for all local and regional firms and represent those firms' interests on professional issues, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the ED and is providing the following comments for your consideration.

#### GENERAL COMMENTS

TIC fully supports the Board's project to incorporate going concern accounting guidance into the authoritative accounting literature. TIC believes these changes will clarify that the evaluation of going concern issues and disclosures is an integral part of management's responsibility for the preparation of financial statements.

However, TIC believes the stated time horizon for management's evaluation of going concern, which is based on current international accounting standards, is not operational in the U.S. and should be revised. TIC also believes that the ED should be clarified to indicate that disclosures are required whenever conditions or events indicate that "substantial doubt" about the entity's ability to continue as a going concern may exist. TIC also has concerns about the effective date as stated in the ED. The specific comments section below presents these issues in more detail along with a recommendation for one editorial change.





## SPECIFIC COMMENTS

### **Time Horizon for Evaluating an Entity's Ability to Continue as a Going Concern**

TIC supports the Board's conclusion that management should have the primary responsibility for assessing the ongoing viability of the reporting entity. However, TIC cannot support paragraph 4 of the ED since it creates a potentially indefinite time horizon for management's assessment, which in turn will lengthen the assessment period that the auditor must evaluate. (The AICPA Auditing Standards Board is expected to converge with International Standard on Auditing 570, *Going Concern*, which requires the auditor to make an assessment for the same period as management.)

Such open-ended assessment periods will create legal issues for U.S. practitioners who could be held responsible for business failures well beyond the current twelve-month horizon, which has afforded significant legal protection for many practitioners over the years. Although TIC certainly supports convergence with the IASB standards, we believe the legal environment in the United States is such that an exception to convergence should be made regarding this issue.

The ED should be rewritten to reach a compromise that would address current practice issues resulting from today's bright-line time horizon while also ensuring limits on the accountant's legal liability. TIC recommends that the Board consider the following text which suggests a conditional twelve-month time horizon and effectively brings the intent of paragraph A6 of the ED into the body of the standard:

*Consideration of available information beyond the 12 months that could significantly impact liquidity might be important when evaluating the going concern assumptions. Events such as large loan repayments, a termination date of a line of credit agreement or another potential claim on cash flows that are expected to occur in the immediate period beyond the 12 months, would be information that should be considered.*

### **Going Concern Disclosures**

TIC believes the disclosure requirements in the ED are less clear than the disclosure guidance in the original auditing standard.

Paragraph 1(b) of the ED implies that disclosure is required only when substantial doubt exists. However, the first sentence of paragraph 7 states that the entity shall disclose "the





material uncertainties about events or conditions that may cast substantial doubt about the entity’s ability to continue as a going concern” [emphasis added]. The two paragraphs seem inconsistent. Also, the first sentence of paragraph 7 does not add to the disclosures already required by subparagraphs 7(a) through 7(f) and is unclear in its meaning. It blurs the definition of “substantial doubt” and may imply to some that no disclosure is required if substantial doubt is alleviated in the near term through management’s plans or other events.

TIC strongly believes that the disclosures in subparagraphs 7(a) through 7(f) should be required whenever management’s assessment concludes that there could be substantial doubt about the entity’s ability to continue as a going concern, irrespective of whether management’s plans alleviate the final assessment of substantial doubt. SAS 59, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern*, was clear on this issue, although the disclosures listed were suggested considerations, not authoritative requirements. TIC therefore recommends that the first sentence of paragraph 7 of the ED be deleted and that the lead-in to paragraph 7 be changed to state that disclosures are necessary whether or not substantial doubt remains after considering the effects of management’s plans. TIC believes it is important for users to understand the conditions and events that gave rise to going concern considerations and why management believes the entity can continue as a going concern despite adverse indications to the contrary.

### **Effective Date**

TIC believes that an effective date based on interim or annual financial statements issued after ratification of the FASB Accounting Standards Codification (the Codification) is not appropriate for this standard, especially since the ED contains modifications from the original text in the existing auditing standard. Based on the stated date, TIC is concerned that the new requirements may become effective in the middle of an interim or annual engagement. For example, this standard would be effective for a monthly or quarterly financial statement as of May 31, 2009 that is issued anytime after July 1, 2009, the expected ratification date for the Codification. TIC believes it is inappropriate for the accounting rules to have the potential to change after the engagement has already started. Therefore, TIC recommends that the effective date be based on a specific balance sheet date in the future, with sufficient time provided for practitioner training and the preparation of implementation guidance.

### **Alternative Terminology for “End of the Reporting Period”**

TIC noted that the phrase used to denote the date of the financial statements is used inconsistently between the *Going Concern* and *Subsequent Events* EDs. Paragraph 4 of the





*Going Concern* ED introduces “the end of the reporting period,” which is used in lieu of the “balance sheet date” terminology found in paragraphs 1 and 4 of the *Subsequent Events* ED. TIC believes “balance sheet date” is the more common term used throughout the authoritative accounting standards. Therefore, for consistency with other FASB standards, TIC believes the phrase “balance sheet date” should be retained. Alternatively, if the Board would prefer to use a more inclusive term, the language used in the existing auditing standard, “the date of the financial statements” would be preferable to a completely new term.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

Stephen Bodine, Chair  
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committee

