

Financial Accounting Standards Board

Director @fasb.org

Going Concern: File 1650-100 Comments: due 12-08-08

To the Board,

The comments are set forth below. I thank you for the opportunity to make this presentation. Details follow.

The objective is to set forth financial statements not prepared under the "going concern" assumption due to substantial doubt as to the entity (ies) ability to continue as a going concern. Generally, management assesses the ability of the entity to continue as a going concern unless there is an intention to liquidate operations or there is some other realistic alternative.

Critique: "Substantial doubt" is indicated by negative trends, recurring losses, chronic working capital deficiencies, negative cash flow from operations, adverse key financial ratios, labor difficulties and work stoppages, loss of a key franchise, an underinsured catastrophe and denial of trade credit. Certain derivative transactions may be added to this list where there is a reasonable expectation that a Court may reverse the risk of loss to the originator in an otherwise "principal to principal" transaction. The intention of the submission is to reduce the differences between "going concern" GAAP and IAS 1. pp. 6 The time horizon of IAS 1 is dispositive.

A practical example of negative trends would be the auto industry. Toyota and Honda have single digit decreases in sales. GM sales are down 20%. Ford sales are down 26.5%. Chrysler sales are down 34.5%. The choices involve a third reduction in staff, government assistance, consolidation of multiple manufacturers, employee ownership or new business with the government. i.e. producing government vehicles to replace existing fleets. GM has some ongoing derivatives litigation.

In the instance where management plans to operate on a "going concern" basis, a new mission may be in order, as well as a cessation of the behaviors/activities which occasioned the adverse negative trends. Other happenings place management in the position of having to determine whether or not operations can continue. For instance, major disasters and natural catastrophes can decimate operations unless there are viable parallel backup processing entities or outside vendors with compatible data processing capabilities. The Asian Tsunami a few years back was the perfect example of an overnight catastrophe that wiped out everything in sight.

A related issue to the "going concern" concept is management's ability to secure operations during or shortly after a major natural disaster.

by Dr. Joseph S. Maresca CPA, CISA

LETTER OF COMMENT NO. /D