**MINUTES**

**To:** FASB Board Members

**From:** Going Concern
(Van Eperen x. 229)

**Subject:** Minutes of the February 18, 2009, Board Meeting: *Going Concern*

**Date:** February 26, 2009

**cc:** Leisenring, Bielstein, Golden, Bossio, Lott, Klimek, Chookaszian, Posta, Glotzer, C. Smith, Stoklosa, Proestakes, Sutay, Mechanick, Gabriele, Maroney, Van Eperen, Finden (GASB), LiLi Lian (IASB) , FASB Intranet

*The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Statement, Interpretation, or FASB Staff Position.*

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| Topic: | Analysis of comment letters received on the proposed Statement on Going Concern |
| Basis for Discussion: | Board Memorandum dated February 18, 2009 |
| Length of Discussion: | 9:08–9:45 a.m. |
| Attendance: | |
| Board members present: | FASB: Herz, Linsmeier, Siegel, and L. Smith |
| Board members participating by phone: | FASB: Seidman |
| Board members absent: | IASB: Leisenring |
| Staff in charge of topic: | Maroney (FASB), Proestakes (FASB) |
| Other staff at Board table: | FASB: Van Eperen, Glotzer |

Summary of Decisions Reached:

The Board discussed issues raised in comments received on proposed FASB Statement, Going Concern. The Board decided the following:

a. To provide guidance that defines a going concern.
b. To clarify that the time period for the going concern assessment is not a bright line twelve months but not intended to be an indefinite look forward period.

The Board also decided that the final Statement will be effective for interim or annual periods ending after June 15, 2009. The Board directed the staff to proceed to a draft of a final Statement for vote by written ballot.

Objectives of Meeting:

The objective of the meeting is for the staff to discuss with the Board the comment letters received from constituents about the proposed Statement on Going Concern, the intent of which is to incorporate guidance on going concern into accounting literature. The staff plans to discuss with the Board whether there are any necessary adjustments to the proposed Statement as a result of the comments received, and if the proposed Statement should be issued as a final Statement. The objectives were met.

Matters Discussed and Decisions Reached:

1. The following five issues were raised by constituents in their comment letters, and were discussed by the Board: (a) the definition of a going concern, (b) the going concern assessment, (c) the Statement's disclosure requirements, (d) the effective date of the final Statement, and (e) the Statement's relationship with auditing literature.

**Issue 1: The Definition of a Going Concern**

2. Ms. Maroney explained that several respondents noted that the Exposure Document does not have a definition of a *going concern*. Ms. Maroney explained that the staff proposes that the definition of a *going concern* is similar to AU section 341 and should be included in the final Statement, which explains the opposite of a going concern as: "ordinarily, information that significantly contradicts the going concern assumption relates to the entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of business, restructuring of debt, externally forced revisions of its operations, or similar actions."

3. **Staff Recommendation:** The staff recommended that the Board include the above definition of going concern in the final Statement.

4. Mr. Smith mentioned he would like the Statement to be in the affirmative. Ms. Seidman mentioned that she would like the Statement to remain as exposed, because if it is moved to the affirmative, it may change the way practice views the Statement. Also, the rules which govern auditors (AU) and managers (GAAP) would be different.

5. Ms. Seidman mentioned that the primary reason for taking the project on was not to change auditing literature. She mentioned that to reduce the risk of accidental non-compliance, the staff should change as little as possible when moving information from the auditing literature to the accounting literature. Mr. Herz reiterated her point to ensure no unintended consequences arise from unnecessary changes.

6. **Board Vote:** All Board members agreed with the staff's recommendation.

**Issue 2: The Going Concern Assessment**

7. Ms. Maroney explained that several respondents commented on the going concern assessment as included in the ED. Respondents primarily commented on two issues:

a. The proposed time horizon
b. The proposed level of information.

8. Ms. Maroney explained that the rationale for respondents' concerns varied. Some respondents commented that the proposed assessment does not comprehend the real purpose of the going concern assessment, as the assessment is to address the viability of an entity over a specified period of time, not to assess the viability of a business model in general. Others were concerned about the legal ramifications for both management and their auditor/accountants. It was also noted that the time horizon conflicts with other accounting and auditing literature.

9. The staff then recommended two proposed methods for dealing with the time horizon:

a. A fixed time horizon similar to what exists under auditing literature today, or
b. An open-ended time horizon which allow greater convergence in words with IFRS.

10. Next, the staff discussed the proposed level of information. Ms. Maroney stated that the staff would like to modify the going concern assessment to "in assessing whether the going concern assumption is appropriate, management shall take into account all available information about the future, which is at least, but not limited to, 12 months. The time period is designed to capture events occurring beyond twelve months which are reasonably foreseeable and materially affect the entity's ability to continue to meet its obligations as they come due without substantial disposition of assets outside the ordinary course of business, restructuring of debt, externally forced revisions of its operations, or similar actions. To evaluate whether there are reasonably foreseeable events beyond twelve months, management shall take into account material information, significant assumptions and events which are available to the entity without undue cost and effort."

11. Ms. Maroney next reintroduced a recommendation made at the education session. The recommendation was for the staff to reach out to other constituents who disagreed with the time horizon as exposed, which stated "management shall into account all information about the future, which is at least, but is not limited to, 12 months from the end of the reporting period." In her conversations with other constituents, Ms. Maroney noted that the staff's going concern assessment, as outlined in paragraph 11 above, did not alleviate constituent concerns of a seemingly indefinite time horizon. Constituents believe that management and their auditors would not know how to apply, for example, a situation in which debt matured in seven years which could require disclosure under the "going concern" assessment, as outlined in the staff

recommendation. The constituents provided two solutions to alleviate their concerns, both of which involved a fixed time horizon, either:

a. Limit the time horizon to twelve months (removing but not limited to) or
b. Limit the time horizon to a longer time period (either 18 or 24 months).

12. **Staff Recommendation:** The staff first asked the Board if they would like a fixed or indefinite time horizon for the going concern assessment.

13. Mr. Smith asked Ms. Maroney with whom she had spoken. Ms. Maroney explained she had spoken with a few large firms, and they made it clear that for them to feel comfortable applying the assessment, they would prefer a fixed time horizon. Mr. Herz explained that he does not believe that having an indefinite time frame is a problem of how a company should apply the horizon as current IFRS uses the time horizon as exposed; rather it is a fear of the US litigation environment.

14. Mr. Proestakes stated that it is hard for the staff to describe IFRS practice since it is broad, but speculation may lean towards the IFRS use being very similar to the twelve month time horizon currently used in AU section 341. He went on to confirm that the Board did not intend for the date to be completely open-ended.

15. Mr. Linsmeier stated that the obvious fear of making the going concern assessment open-ended is the fear of litigation. He then clarified that the Statement is meant to propose a time in the general horizon, and not indefinitely. He stated that the Board can not limit the assessment to absolutely 12 months.

16. Mr. Proestakes mentioned that to accomplish this, the Statement should say something to the extent of "soon after" or "just beyond" 12 months. Ms. Seidman asked if the Statement could say "on or about" the 12-month mark. Ultimately, all participants agreed that the time period should not be a hard bright line date, while the time period is also not meant to cover an indefinite amount of time.

17. **Board Vote:** All Board members agreed that the Statement should not have a definite time horizon, but should be limited to include a time that is "soon after," or "just beyond" 12 months.

18. The focus of the discussion then changed to the proposed level of information. Mr. Linsmeier and Mr. Herz explained that using the words "all available information" in the first sentence and

"undue cost and effort" in the last sentence of the recommended going concern assessment may contradict one another.

19. As for "undue cost and effort", Mr. Linsmeier is worried that cost would preclude a company from analyzing all factors that may contribute to its assessment of its inability to be a going concern. A company should not be allowed to pass on assessing material events, because it would force a company to expend resources over time to perform more work. Mr. Proestakes mentioned that the wording was only meant to constrain how far forward a company must look in assessing its ability to continue as a going concern.

20. **Board Vote:** All Board members agreed that, given drafting changes as presented above, the going concern assessment is correct.

**Issue 3: The Disclosures Required by the Proposed Statement**

21. Ms. Maroney explained that several respondents noted that the Codification Update could be interpreted to mean that no disclosure is required when management determines that substantial doubt about the entity's ability to continue as a going concern is alleviated by management's plan to address.

22. **Staff Recommendation:** The staff recommended that the update be clarified to include the requirement to disclose the situation in which management's plans alleviate substantial doubt about an entity's ability to continue as a going concern.

23. **Board Vote:** All Board members agreed with the staff's recommendation.

**Issue 4: The Effective Date of the Final Statement**

24. **Staff Recommendation:** Ms. Maroney stated that the staff recommends that the final Statement be effective for interim and annual periods ending after June 15, 2009. A final Statement will be completed by the end of the first quarter of 2009.

25. Mr. Linsmeier agreed with the date, and wanted to speak to an issue which was brought to the attention of the Board at a previous meeting. The issue dealt with if private companies should be given leniency with respecting to the requirements of assessing their ability to continue as a going concern for interim periods. He stated that he does not give sympathy for private companies who make money on communicating company results via standards which are set by the FASB.

26. Ms. Seidman would not defer the effective dates for private companies, but believes that it is an issue that private companies and smaller practitioners do not keep updated with all FASB literature. She mentioned expending resources so that private companies can become aware of the Statement on going concern. Mr. Smith explained that the FASB staff should reach out to state societies. Mr. Proestakes concluded the conversation by stating that the staff will create a way to reach out to smaller private companies, and present the results to the individual Board members at a later date.

27. **Board Vote:** All Board members agreed with the staff's recommendation.

**Issue 5: Auditing literature**

28. Ms. Maroney explained that the staff is aware of the need to communicate details of the final Statement to representatives from the Public Company Accounting Oversight Board (PCAOB) and the American Institute of Certified Public Accountants (AICPA) and will notify them of the decisions reached today, as well as other details of the final Statement.

29. Mr. Smith wanted to ensure that the FASB Staff does not try to imply that changes are necessary for the PCAOB or AICPA. Mr. Herz agreed and explained that it is the burden of the PCAOB and AICPA if they would like to change their standards to conform to GAAP.

Follow-up Items:

The staff will begin drafting a final Statement for ballot.

The staff will explore additional outreach of the Statement per paragraph 27 above.

General Announcements:

None.