

September 24, 2013

Ms. Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

File Reference No. 2013-300

Dear Ms. Cospers:

McGladrey LLP appreciates the opportunity to comment on the Proposed Accounting Standards Update, *Presentation of Financial Statements (Topic 205): Disclosure of Uncertainties about an Entity's Going Concern Presumption* (the "proposed ASU"). We believe the proposed ASU represents an improvement over the current model which requires an assessment by the auditor without any explicit requirements for disclosure by preparers under U.S. GAAP, as we believe the auditor should not be the source of any original information about the entity. We agree, in general, the proposed guidance will result in more timely and consistent disclosures about going concern uncertainties. However, we believe that consideration should be given to adding more clarification around the substantial doubt threshold and expanding the substantial doubt disclosure requirements to nonpublic companies.

Our responses to certain of the "Questions for Respondents" on which specific comment was requested and comments and suggestions on other matters in the proposed ASU are included below for your consideration.

Comments on Certain Questions for Respondents

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, we agree with the proposed definition of *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?*

The financial statements are the responsibility of management and management is in the best position to understand and evaluate an entity's going concern uncertainties, and therefore we agree that management should be responsible for assessing and providing footnote disclosures about going concern uncertainties. We also agree that it is appropriate that explicit guidance about the timing,

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nature, and extent of footnote disclosures about going concern uncertainties be included in U.S. GAAP.

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?*

We agree the proposed amendments would reduce diversity in the timing, nature, and extent of footnote disclosures and provide relevant information to financial statement users. We also agree that the proposed disclosures for SEC registrants would 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 as the proposed disclosure requirements are specifically focused on going concern uncertainties.

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.*

We believe that an entity's management does have the objectivity necessary to assess and provide disclosures of uncertainties about the entity's ability to continue as a going concern. Management is already expected to overcome their inherent bias and make numerous assessments under U.S. GAAP that require substantial judgment (e.g., impairment evaluations and recoverability of deferred tax assets). While the evaluation of going concern uncertainties is a significant and often complex assessment, we believe that management can exercise sufficient objectivity and is, in fact, in the best position to make such an assessment.

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?*

We agree that management should be required to evaluate an entity's going concern uncertainties each reporting period. The proposed frequency of the assessment would provide financial statement users with more timely information about an entity's going concern uncertainties. We believe the benefit of earlier disclosure about going concern uncertainties would outweigh any concerns regarding the costs in interim periods of reassessing previously identified conditions and events, and identifying new conditions and events that indicate doubt as to an entity's ability to meet its obligations as they become due within 24 months after the financial statement date.

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*

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disclosures and the disclosures required by the SEC? Is the redundancy that would result from this proposal appropriate? Why or why not?

We agree that while there will be some overlap with between SEC disclosure requirements and the footnotes, the footnote disclosures will be more narrowly focused on the conditions or events specific to the going concern presumption and management's plans related thereto. We strongly believe these disclosures should be made in the financial statement footnotes. The required SEC disclosures could then be used to complement or expand on these disclosures.

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.*

As we indicated in our response to Question 6, we believe the SEC disclosures would be used to expand upon or complement the footnote disclosures by giving more detail about the potential causes and effects of the identified conditions and, therefore, we don't believe it will have a significant impact on the timing content or communicative value of the related disclosures.

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?*

We believe the disclosures of forward-looking information would generally be limited to information about the possible effects of conditions and events that give rise to the entity's potential inability to meet its obligations and management's plans that are intended to address the entity's potential inability to meet its obligations. This information is often used in other areas of financial reporting such as goodwill and long lived asset impairment and establishment of deferred income tax valuation allowances.

We also believe that it is important to make it very clear in the standard that the going concern assessment is not intended to incorporate conditions that are unknown to the preparer at the time the financial statements are issued (e.g., a product defect that has not manifested itself). To that end consideration should be given to using the phrase "known to exist" vs. "exist" in paragraph 205-40-50-2.

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

While there will continue to be some challenges in the implementation of the standard, it will represent a significant improvement as compared to the current going concern model, which is based primarily on the auditor's determination in accordance with the auditing standards. By including the requirement in the accounting standards, it will appropriately require management to initially make the assessment and provide the required disclosures.

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

Yes, we believe that it will provide more timely information about conditions and events that give rise to an entity's potential inability to continue as a going concern and its plans to address them, thus

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providing users more clarity on the nature and impact of the events or circumstances and management's plans to mitigate such events or conditions. We believe benefits to users of the assessments and information required to be disclosed by the proposed ASU will far outweigh the costs to preparers.

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?*

In general we agree with the proposed disclosure thresholds. Both *more likely than not* and *probable* are concepts that are already understood and applied under U.S. GAAP. However, we believe the *known or probable* threshold should be revised to consider only whether it is *probable* that the entity will be unable to meet its obligations within 24 months after the financial statement date. The inclusion of *known* in the threshold seems extraneous given the use of *probable* would presumably already encompass *known*. The alternative of only including the concept of *known* would imply a degree of certainty that we do not believe is necessary in order to reach the disclosure threshold.

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?*

We agree that the current 12 month period provided for in the auditing standards limits the usefulness of the disclosure of events or circumstances that are just outside of the 12 month period. We therefore agree that expanding the assessment beyond 12 months is appropriate and also agree that disclosures in the extended period should be limited to events that meet the probable threshold.

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.*

We believe the distinction between the mitigating effect of management's plans *in* and *outside* the ordinary course of business when evaluating the need for disclosures is important and appropriate. Financial statement users should be provided information about going concern uncertainties without regard to the mitigating effect of management's plans that, as described in Paragraph 205-40-50-5, "involve actions of a nature, magnitude, or frequency that are inconsistent with actions customary in carrying out an entity's ongoing business activities". By requiring management to ignore actions

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outside the ordinary course of business when determining whether disclosures of going concern uncertainties are necessary, information is disclosed in a more timely manner, and financial statement users are afforded the opportunity to separately consider the going concern uncertainties and evaluate management's plans that are outside 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?*

The description of *management's plans that are outside the ordinary course of business* in paragraph 205-40-50-5, as those "plans that involve actions of a nature, magnitude or frequency that are inconsistent with actions customary in carrying out an entity's ongoing business activities", is generally appropriate and operational. However, we are concerned with the guidance and examples provided related to debt refinancing. Specifically, paragraph BC32 states that "if the intent of the refinancing is to maintain sufficient cash to simply maintain an entity's ongoing operations and the entity otherwise does not have ready access to financial resources, the plan would be considered outside the ordinary course of business." Further, in paragraph 205-40-55-6, the implementation guidance provided indicates that the refinancing of debt which is coming due in Example 1 would likely be considered outside the ordinary course of the ordinary course of business unless the debt was insignificant or the entity routinely refinanced debt to take advantage of interest rate fluctuations. We do not agree that the refinancing of debt nearing maturity or the issuance of new debt to address liquidity issues is necessarily inconsistent with actions customary in carrying out an entity's ongoing business activities and ask that the Board provide further clarification.

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 the disclosures outlined in 205-40-50-7 are appropriate and will provide users with decision useful information. We also believe an entity should be required to disclose whether its plans are inside or outside the ordinary course of business and whether it believes it is likely the plans can be effectively implemented.

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?*

Similar to our discussion in Question 11, we believe the *known or probable* threshold should be revised to consider only whether it is *probable* that an entity will be unable to meet its obligations within 24 months after the financial statement date.

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 that management of an entity filing financial statements with the SEC should be required to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern and, if it determines that substantial doubt exists, disclose that determination in the footnotes.

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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.*

We do not agree with the decision to exclude non-SEC filers from the requirement to evaluate whether or provide disclosure when there is substantial doubt about an entity's going concern presumption. We do not believe the auditor should be the source of original information in the financial statements and, since auditors are required under the existing auditing standards to assess whether there is substantial doubt and, if so, include an emphasis of a matter paragraph in the auditor's report, management should also have to make the substantial doubt assessment, and when it is determined to exist, so disclose in the financial statement footnotes. We do not believe that this will impose significant incremental costs on private companies, and it will provide useful disclosure to the users of the financial statements.

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?*

We are not aware of any research or information that would indicate whether or not the definition of substantial doubt approximates the upper end of the range in the present interpretation of substantial doubt by auditors, but it would not be inconsistent to believe that it may be. Therefore, it is possible there would be fewer emphasis-of-matter paragraphs discussing going concern uncertainties under the proposed amendment than there were historically. We believe this will be more than offset by the improvements in the timeliness and quality of the disclosures as a result of the guidance reducing the diversity in the timing, nature and extent of the footnote disclosures. As a result, we believe the users of financial statements will be provided a clearer understanding of the events or conditions that may impact an entity's ability to continue as a going concern as well as management's plans to mitigate those conditions and events at an earlier stage than under the current auditor driven model.

Other Comments and Suggestions

Effective Date

We recommend that, in establishing the effective date, the Board allow sufficient time for the Public Company Accounting Oversight Board, International Accounting and Assurance Standards Board and Auditing Standards Board to amend their standards in reaction to the proposal should they deem it appropriate.

We would be pleased to respond to any questions the FASB or its staff may have concerning our comments. Please direct any questions to Rick Day (563.888.4017) or Ginger Buechler (612.455.9411).

Sincerely,



McGladrey LLP