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September 24, 2013

Ms. Susan M. Cospers  
Technical Director  
FASB  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

File Reference No. 2013-300

Dear Ms. Cospers:

The Financial Reporting Executive Committee (FinREC) of the American Institute of Certified Public Accountants (AICPA) appreciates the opportunity to comment on the Financial Accounting Standards Board's (FASB or Board) June 26, 2013 Invitation to Comment, *Disclosure of Uncertainties about an Entity's Going Concern Presumption*. We commend the Board for the improvements made to the proposed standard from the original Exposure Draft issued in 2008. Specifically, we welcome the clarifications around the definition of "going concern," clarity surrounding the time horizon over which an entity should be evaluated, and clarification about the information to be used in such evaluation.

The remainder of this letter discusses FinREC's remaining comments on the Board's current proposal.

### **Alignment with Audit Standards**

The proposed standard would require management disclosures and possibly a statement of an entity's ability to continue as a going concern based on criteria and a time horizon that are different from the guidance auditors currently use to make their assessment of going concern. Therefore, we recommend that the FASB actively coordinate with the Public Company Accounting Oversight Board, the Auditing Standards Board (ASB), and the International Accounting and Assurance Standards Board to ensure a converged approach for both preparers and auditors.

### **Interim Periods**

We note that paragraph 205-40-05-2 would require similar evaluations at "each annual and interim reporting period." We have concerns that the requirement to perform an assessment at interim periods will have a significant impact on the ongoing costs to implement and apply the proposed guidance. This rolling evaluation will be a significant burden to companies, especially small and mid-size companies. Therefore, we recommend that interim assessments be performed only when there is a known future event or when a probable future event triggers the need for an assessment. We believe that requiring an annual assessment, coupled with an interim event or

circumstance-based assessment would satisfy the Board's stated objectives for this project in a cost-effective manner.

### **Inside/Outside the Ordinary Course of Business**

We support the principle that would be used to distinguish those management activities that are in the ordinary course of business from those that are outside the ordinary course of business. We believe this principle focuses on whether management's action is a result of the circumstances of its business. We understand that a significant amount of judgment will be needed when making this distinction. However, the examples provided in BC 32 appear to expand the notion of "intent" beyond what the principle of outside the ordinary course may have contemplated. Specifically, we do not believe a refinancing of debt "to maintain sufficient cash" (especially on or around the due date) would be conclusive of outside the ordinary course of business. Many companies incur debt in the ordinary course of business, or refinance debt, for liquidity purposes. For example, FinREC discussed a scenario in which a company may refinance debt nearing expiration at slightly worse terms due to a change in market conditions. Would this action be considered outside the ordinary course of business? Therefore, we believe this principle requires further clarification (including examples) to ensure that only those "abnormal" actions that are in direct response to the events and conditions giving rise to the going concern uncertainty be considered outside the ordinary course of business.

### **More Likely Than Not**

We are concerned that the more-likely-than-not threshold in part (a) of paragraph 205-40-50-3 will be interpreted to be a greater-than-fifty-percent calculation. We note that paragraph BC 24 makes clear that it is not the Board's intent that the assessment be interpreted as an exact calculation. However, the Basis for Conclusions does not become part of the FASB Accounting Standards Codification. Accordingly, we recommend including the statement in paragraph BC 24 that "the more-likely-than-not threshold was intended as a benchmark for determining whether disclosures are required, not as a formula-based likelihood calculation" in the amendments to the FASB Accounting Standards Codification.

### **Forward-Looking Information**

We have concern over the disclosure (and auditability) of extensive forward-looking information in the notes. We support disclosure in the notes of factual information that can be supported and verified. We note that the proposed standard would significantly increase disclosures about possible future events, such as the "anticipated loss of a major customer" in paragraph 205-40-50-4(d). We recommend that further clarity be provided about the required disclosures and that possible or anticipated future events be excluded from the disclosure requirements due to concerns about their auditability and the lack of safe harbor rules.

### **Convergence with International Financial Reporting Standards (IFRS)**

The guidance in this proposed standard will likely be most relevant during times of crisis, either for an individual company, or for several companies within an industry or region experiencing economic difficulty. We believe facts and circumstances should dictate the conclusion of going concern, and that conclusion should be consistent regardless of the accounting framework used. This is especially true since a conclusion of going concern or lack thereof may severely limit a

company's operations. While we support the amendments made by the FASB to the original proposal, we do not believe global capital markets are well served by divergence in this area. There are currently active projects by the FASB and the International Accounting Standards Board (IASB) regarding going concern. As a result, we strongly encourage the FASB to work with the IASB to achieve convergence, but do not believe this should delay the proposed standard.

### **Other**

We have concern with the practical application of "known or probable" in paragraph 205-40-50-3 and in the definition of "substantial doubt." Specifically, "known" is considered to be a much higher threshold than "probable" and we question whether the intent of the FASB is to achieve a "probable" threshold or a "known" threshold. In looking out 24 months, we believe the threshold should be higher than probable and, therefore, we recommend that the language be limited to either "known" or "highly probable."

We understand the concern that management making the going concern assertion could be biased. However, the issue of management bias affecting financial reporting is not unique to going concern and, therefore, we believe an exception should not be made here. Accordingly, we support the requirement for a management assertion.

Paragraph 205-40-50-9 indicates that only SEC filers should evaluate whether there is substantial doubt about the entity's going concern presumption. We recommend that all companies, whether SEC filers or not, should make this disclosure as we believe it provides useful information to users.

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Representatives of FinREC are available to discuss our comments with Board members or staff at their convenience.

Sincerely,

Richard Paul  
Chairman, FinREC

Aaron Anderson  
Chairman, Going Concern Task Force