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

File Reference No. 2013-300

Re: Proposed Accounting Standards Update, *Disclosure of Uncertainties About an Entity's Going Concern Presumption*

Dear Ms. Cospers:

Deloitte & Touche LLP appreciates the opportunity to provide feedback on the FASB's proposed Accounting Standards Update (ASU) *Disclosure of Uncertainties About an Entity's Going Concern Presumption*.

We support the FASB's efforts to incorporate guidance into the accounting standards to help management determine when to disclose uncertainties about an entity's going-concern presumption. As the proposed ASU notes, management's responsibility is currently inferred from the auditing literature (AICPA Statement on Auditing Standards No. 59 (AU Section 341), *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*). We agree that management has the responsibility for assessing an entity's going-concern presumption when preparing financial statements. Accordingly, we believe that three key objectives should be accomplished in the going-concern project: (1) to articulate and confirm that management has the responsibility to perform the assessment, (2) to clarify the substantial-doubt threshold (not defined in current auditing literature), and (3) to require that entities provide disclosure about going-concern uncertainty even when substantial doubt is not yet and may not be present. While the proposal makes strides toward meeting these objectives, we have concerns, as discussed below, about whether certain aspects of the proposed ASU's requirements fully accomplish these objectives.

Complexity

We understand that there are many factors involved in evaluating an entity's going-concern presumption. However, the proposed ASU adds complexity by artificially incorporating multiple levels in the determination of whether some form of financial statement disclosure is required with respect to an entity's going-concern presumption. Under the proposal, management's evaluation includes (1) two different thresholds for disclosure ("more likely than not" and "known or probable") incorporating two different assessment periods after the financial statement date (12 months and 24 months) and two types of company actions to consider (within the

ordinary course of business and outside the ordinary course of business); (2) two different categories of preparers (private companies and SEC filers); and (3) two different categories of disclosures (a “standard” disclosure and a substantial doubt disclosure for SEC filers). While some delineation is warranted, we question whether all of these differentiations are necessary. As a result of such differentiation, determining the appropriate disclosure for the preparer, and auditing it, may be unnecessarily complex under the proposed ASU and may result in inconsistent application, which could ultimately confuse financial statement users. As discussed further below, we believe that the Board could reduce complexity in the proposal by eliminating some of the differences in models, such as differentiation according to whether a company’s actions are within the ordinary course of business and by type of entity, and by conforming the assessment periods.

As noted above, we agree that an objective of the proposed guidance should be to require disclosures about an entity’s ability to meet its obligations earlier than when the substantial doubt threshold has been met. Therefore, the Board should clearly articulate the distinction between (1) an entity that is providing early (or even expanded) disclosures about its going-concern presumption and (2) an entity about which there is “substantial doubt” regarding such presumption. To alleviate perceived adverse effects of providing these disclosures, the Board should consider requiring all entities to provide some minimum level of disclosure about their going-concern presumption. For specific circumstances, it should require expanded disclosures, and when a specific threshold is met (such as “probable”), it should require substantial-doubt disclosure. The Board should specifically indicate the type of minimum and expanded disclosures (less extensive) and substantial-doubt disclosures (more extensive) required and provide examples to help preparers understand the disclosures’ objectives (including examples to clarify the points in time that the different disclosures would be made). This seems to be consistent with paragraph 205-40-50-8 of the proposed standard that suggests disclosures would be “less extensive” initially and “more extensive” in subsequent periods as warranted.

To the extent that the Board does not want to require all entities to provide some minimum level of disclosure about their going-concern presumption, the Board should specify one threshold (such as “more likely than not”) for determining when initial (early) disclosures (less extensive) about the entity’s going-concern presumption would be required as well as a separate threshold (such as “probable”) for determining when substantial doubt disclosures (more extensive) would be required. Further, the Board could reduce complexity by conforming the length of the assessment periods after the financial statement date (see comments in “Time Horizon” below).

We also have concerns about the requirement for management to distinguish plans that are either within or outside of the ordinary course of business. We do not understand the purpose of this delineation and recommend that it be deleted (i.e., all plans should be considered). If the Board determines that such distinction is necessary, it should provide additional guidance, including examples, to clarify how such distinction would be made. Further, if the Board believes such distinction is relevant and meaningful to financial statement users, we do not understand why those provisions of the proposed ASU would only apply to SEC filers.

Time Horizon

We understand the Board extended the time horizon in the proposal to 24 months “to provide users with the necessary information about significant going-concern uncertainties that extend beyond 12 months” and “on the basis of stakeholders’ feedback that it would be impracticable to

evaluate the likelihood of an entity's potential inability to meet its obligations beyond two years." We agree that the indefinite time horizon proposed in the 2008 exposure draft was not practicable. We continue to believe that the current time horizon in auditing literature (i.e., "not to exceed 12 months") has proven to be both practicable and operational. However, in light of the Board's concerns, we support the proposed time horizon provided the complexities noted above are addressed.

The Board could potentially achieve consistent assessment periods and reduce complexity by limiting management's assessment of information about conditions and events that occur between 12 and 24 months after the financial statement date to only those conditions and events that could have a severe impact.

Information Assessed

The proposed standard requires an entity to "consider all information about conditions and events that exist at the date the financial statements are issued" and "assess all relevant information about conditions and events in the aggregate to determine their potential effect on the entity's potential inability to meet its obligations within 24 months after the financial statement date." The proposal could be interpreted to require management to perform extraordinary efforts to ensure it obtains *all* information about conditions and events (some of which may be expected to occur in the distant future) to properly perform the going-concern assessment. Auditors would also be required to perform auditing procedures to ensure that management has obtained all such information. The bar established in this requirement appears unreachable since it may not be possible for an entity or its auditor to know "all information" about a particular condition or event. We recommend that the Board consider revising the proposal to instead require management to consider and assess information that is "known or reasonably knowable" at the time of the assessment (or to use similar language). Further, the phrase "exist at the date the financial statements are issued" could be interpreted to include the use of hindsight, such that the entity may be held accountable for events other than those reasonably knowable as of the date the financial statements are issued; therefore, the Board should consider clarifying that the use of hindsight is not intended.

Coordination With PCAOB and ASB

As mentioned above, it is our understanding that the Board's original intent was simply to codify management's existing responsibility for assessing an entity's ability to continue as a going concern that has been inferred from AU Section 341. However, the proposed standard would create accounting requirements that differ significantly from the current requirements in the auditing literature and create further differences depending on whether an entity was an SEC filer. In that regard, we encourage the Board to work closely with the PCAOB and the ASB to ensure that the accounting and the auditing literature (including the respective effective dates) on this subject are aligned.

Coordination With SEC

Since the proposed ASU should result in disclosures about going-concern uncertainty even when substantial doubt is not present, the overlap in the information provided in the footnotes (as required by the proposal) and other sections of the financial reporting package will most likely increase. As we did in our November 30, 2012, letter on the FASB's Invitation to Comment on

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the disclosure framework, we strongly encourage the Board and the SEC to coordinate their efforts to reduce the redundancy of information in the integrated reporting package.

Appendix A contains our responses to the specific questions in the proposed ASU.

Deloitte & Touche LLP appreciates the opportunity to comment on the proposed ASU. If you have any questions, please contact Mark Crowley at (203) 563-2518.

Yours truly,

Deloitte & Touche LLP
cc: Robert Uhl

Appendix A
Deloitte & Touche LLP
Responses to Proposed ASU's Questions

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?

We generally agree with the definition of the going-concern presumption; however, as mentioned in our response to Question 14 below, we are concerned that the proposal does not provide clear guidance to help management distinguish between plans that are within or outside the ordinary course of business. Further, and as mentioned throughout this letter, we strongly encourage the Board to provide meaningful examples to help management understand the going-concern presumption and when uncertainties about such presumption should be disclosed. For example, the Board could clarify how an entity should consider potential loss contingencies (e.g., a lawsuit in which a payout is probable, reasonably possible, or remote) in assessing its 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?

We support the addition of guidance that helps management determine when to disclose uncertainties about an entity's going-concern presumption.

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?

Given the inherent subjectivity in determining whether each of the three thresholds (more likely than not, known or probable, and substantial doubt) have been met, the uncertainty about predicting the effect of conditions and events over the 24-month time horizon, and the potential inconsistency in determining whether plans are within or outside the normal course of business, it is not clear that the proposed amendments would reduce diversity in the timing of footnote disclosures. Also, to allay the perceived adverse effects of disclosing uncertainty about an entity's ability to continue as a going concern (e.g., such disclosure may create a "self-fulfilling prophecy"), the Board may consider requiring all entities to include some level of disclosure about an entity's going-concern presumption and expanded disclosures in specific circumstances. This would seem to be consistent with paragraph 205-40-50-8 of the proposed ASU, which

suggests that disclosures would be “less extensive” initially and “more extensive” in subsequent periods as warranted.

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 management should have sufficient objectivity to assess and disclose uncertainties about the entity’s ability to continue as a going concern. Management has the most complete and relevant information set to make such assessment, and such an assessment would be similar to other assessments that require judgment in the preparation of an entity’s financial statements.

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 believe that updating the entity’s going-concern assessment each interim period should not require the same level of effort as the annual assessment. The Board should consider requiring the going-concern assessment to be performed as of each fiscal year-end and between the year-end assessments as warranted. Under this approach, management would need to remain aware of information in interim periods about conditions and events that indicate there could be doubt about the entity’s ability to continue as a going concern. If an adverse condition or event exists or occurs, management would be required to update its going-concern assessment as of the interim reporting date. Likewise, if management previously concluded that doubt existed, and a subsequent favorable condition or event occurs that management believes may alleviate the doubt, management would also update its going-concern assessment as of the interim reporting date. Such an approach would be comparable to existing requirements of auditors for reissuance of an auditor’s report in AU Section 341. The Board could also provide additional indicators for entities to use in evaluating whether an interim assessment should be performed.

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

While there may be some overlap between information provided in the footnotes (as required by the proposal) and other sections of the financial reporting package, including disclosures of uncertainty about an entity’s going-concern presumption in the footnotes to the financial

statements is particularly useful. As we did in our November 30, 2012, letter on the FASB's Invitation to Comment on the disclosure framework, we strongly encourage the Board, regulators, and others to coordinate their efforts to reduce the redundancy of information in the integrated reporting package.

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.

The proposed footnote disclosures may affect disclosures included in other sections of public filings. For instance, if an entity includes discussions about liquidity in its footnote disclosures, it will most likely update its discussions about liquidity required elsewhere in the filing. Entities often try to conform disclosures throughout the financial reporting package (e.g., critical accounting policies in MD&A and significant accounting policies within the financial statement footnotes) even when the objectives of the disclosures differ.

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?

In a manner consistent with our November 30, 2012, letter on the FASB's Invitation to Comment on the disclosure framework, we believe that including certain forward-looking information in the footnotes could complicate financial statement audits. However, the recent tentative decisions on forward-looking disclosures related to the disclosure framework project may alleviate these complications (i.e., that forward-looking disclosures would be limited to expectations and assumptions that are used to explain inputs to items presented or disclosed in the financial statements).

Increasing the time horizon from the current auditing literature's 12 months to the proposal's 24 months could expand the legal risk significantly for both preparers and auditors since it requires twice as long a period for which management needs to predict potential impacts of conditions and events that exist as of the financial reporting date. It is unclear whether or how this increased time horizon would limit the information that preparers would disclose.

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

As mentioned in the body of this letter, among the challenges we perceive is that the proposed ASU's increased subjectivity and complexity will require expanded procedures by auditors to ensure that "all information" has been obtained about conditions and events that could have an impact over the increased time horizon (from that required today) and that each of the three thresholds have been addressed.

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

As mentioned previously, since management's responsibilities are currently inferred from the auditing literature, we support the addition of guidance that helps management determine when to disclose uncertainties about an entity's going-concern presumption. Depending on how closely aligned the final guidance is with current auditing literature, the incremental costs may not be extensive. However, as we have mentioned in the body of this letter and throughout this appendix, certain aspects of the proposed guidance could, if not clarified, significantly expand the effort of preparers in assessing the entity's ability to continue as a going concern.

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?*

Because the going-concern assessment is innately qualitative in many aspects (rather than a precise probability calculation), it may be challenging to distinguish between the varying thresholds established in the proposal. Therefore, we strongly encourage the Board to provide meaningful examples to ensure consistency of application.

While we believe the guidance in paragraph 205-40-50-4 is helpful and appropriate, as mentioned in the body of this letter, we are concerned with the requirement to assess *all* information.

In addition, we do not understand why the going-concern guidance for SEC and non-SEC filers is not aligned (see further discussion in the response to Question 18).

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?

As mentioned in the body of this letter, we understand that the Board extended the time horizon in the proposal to 24 months "to provide users with the necessary information about significant going-concern uncertainties that extend beyond 12 months" and "on the basis of stakeholders' feedback that it would be impracticable to evaluate the likelihood of an entity's potential inability to meet its obligations beyond two years." We agree that the indefinite time horizon proposed in

the 2008 exposure draft was not practicable. We continue to believe that the current time horizon in the auditing literature (i.e., “not to exceed 12 months”) has proven to be both practicable and operational. However, in light of the Board’s concerns, we support the proposed time horizon provided the complexities noted above are addressed.

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.

Under the proposed standard, the distinction between the mitigating effects of management’s plans within and outside the ordinary course of business does not determine “if and when” disclosures of uncertainty about an entity’s going-concern presumption should be made; rather, it simply expands for SEC filers the disclosure to include the specific phrase in paragraph 205-40-50-10 (that includes the words “substantial doubt”). Under the current proposal, it is not clear whether users will draw a meaningful distinction between a disclosure of uncertainty about an entity’s going-concern presumption that includes or does not include the words “substantial doubt.” Further, if the Board believes such distinction is relevant and meaningful to users of financial statements, we do not understand why those provisions of the proposed ASU would only apply to SEC filers.

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?

We are concerned that the proposal does not provide clear guidance to help management distinguish between plans that are within or outside the ordinary course of business. As acknowledged by the Board, “[t]he same plan can be in the ordinary course of business for one entity but outside the ordinary course for another.” Applying such assertion may therefore present challenges since an entity will have to provide extensive analysis based on the “nature, magnitude, and frequency” of its actions to support whether such actions are within or outside the ordinary course of business. If the Board retains the proposed definition, we encourage it to provide examples of plans that would be deemed within rather than outside the ordinary course of business to help preparers clearly understand the distinction between the two types of plans.

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?

If the objective is to require entities to provide disclosures consistent with those they currently provide, the nature and extent of the disclosures seem appropriate since they are closely aligned with those now required under auditing standards. Because the proposal’s objective is to require entities to provide earlier going-concern-related disclosures, the Board should specifically indicate the types of earlier disclosures (less extensive) as opposed to subsequent disclosures (more extensive) expected under the proposed guidance and provide examples to help preparers understand such objective (including examples to clarify the point in time such disclosures should be made). As discussed in Question 3 above, given the perceived adverse effects of providing

these disclosures, the Board may also consider requiring minimum levels of disclosures about an entity's going-concern presumption and expanded disclosures for specific circumstances.

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?

See discussion above about the assessment of plans within or outside the ordinary course of business and the 24-month consideration period.

Defining substantial doubt at the "probable" level of being unable to meet an entity's obligation may result in less frequent instances of disclosure of a substantial-doubt conclusion than in current practice. However, this may be mitigated by the requirement for earlier disclosures before an entity reaches substantial doubt.

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 should be required to determine whether there is substantial doubt about the entity's ability to continue as a going concern; however, we do not understand why the going-concern guidance is not aligned for SEC and non-SEC filers (see further discussion in the response to Question 18).

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 believe that the going-concern guidance should be aligned for SEC and non-SEC filers. If the objective of the proposed guidance is to require entities to provide disclosures that are consistent with those they provide today such that the determination of when disclosures should be provided is a binary decision (i.e., all or nothing), it is not relevant whether non-SEC filers include or do not include the specific phrase provided in paragraph 205-40-50-10 (see discussion in Question 13). Because the proposal's objective is to require entities to provide earlier going-concern-related disclosures, the Board should clearly articulate the distinction between an entity that is providing early (or even expanded) disclosures about its going-concern presumption and an entity in which the "substantial doubt" threshold has been triggered. And to the extent there is a meaningful distinction, we do not understand why such distinction would only be applicable to SEC filers.

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?

The Board's intention for the substantial-doubt definition to represent the "upper end range" in the present interpretation is not clear. If that is the Board's intent, the definition should be revised to clarify such. Without performing a specific analysis based on the proposed guidance, it is not clear how the frequency of disclosures or audit opinions with an emphasis-of-matter paragraph discussing going concerns would be impacted under the proposed definition compared to current practice. However, given the frequency of disclosures about an entity's ability to continue as a going concern will most likely increase, we would expect the frequency of audit opinions with an emphasis-of-matter will most likely increase also (assuming the audit and accounting literature are aligned in such a manner).