

September 24, 2013

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

File Reference No. 2013-300

Re: Proposed Accounting Standards Updated Presentation of Financial Statements (Topic 205): Disclosure of Uncertainties about an Entity's Going Concern Presumption, issued June 26, 2013

Dear Ms. Cospers:

CohnReznick appreciates the opportunity to respond to the FASB's Exposure Draft (ED), *Presentation of Financial Statements (Topic 205): Disclosure of Uncertainties about an Entity's Going Concern Presumption*.

We support the overall objective of the Board in its efforts to add accounting guidance to US Generally Accepted Accounting Principles (GAAP) to address management's responsibilities in evaluating or disclosing going concern uncertainties. We believe that clear definitions and thresholds related to going concern analysis and disclosures will create consistency between entities in applying and disclosing the proposed guidance. However we believe certain modifications should be made to the ED, specifically around the definition of a going concern presumption and the specific thresholds which would require disclosure of uncertainties.

We believe that with further enhancements and refinements, the Board can develop a clear and robust final standard on an entity's going concern presumptions and disclosures.

Our responses to specific questions on which the Board are seeking comment are included in the Attachment to this letter.

If you have any questions concerning our comments or would like to discuss any of our responses or recommendations in more detail, please feel free to contact Michael Beck at (404) 847-7728.

Yours truly,



CohnReznick

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 believe that the proposed definition should be modified and should also align with the definition in the auditing standards. The definition in the ED, which focuses on realizing assets and meeting obligations in the ordinary course of business, is too restrictive and we are concerned that it may be interpreted to mean that all financial uncertainties and challenges would need to be disclosed. Most entities will experience ups and downs in their financial health which will present them with financial challenges which must be navigated. While certain of these uncertainties may need to be disclosed, we do not agree that they create uncertainty regarding the ability of the entity to exist as a going concern. Rather, it is an entity's inability to navigate these uncertainties or the severity of those uncertainties which ultimately may pose a threat to its going concern status. Disclosure of moderate uncertainties about an entity's liquidity could actually heighten the perceived threat level to one where the uncertainty is expected to be disruptive to the entity's ongoing operations, when in fact that is not the case.

Requiring going concern assessments to be made based on considerations of whether an entity will be able to realize its assets and meet its obligations in the ordinary course of business creates a definitional threshold which most auditors are not equipped to evaluate. Actions which might be considered by management to be in the ordinary course of business may not be obvious to auditors and vice versa.

For example, during economic downturns, an entity might cut back its workforce in order to reduce costs as a result of lower sales volume. Failure to reduce its workforce would be irresponsible and would likely lead to failure. However, most people might view the decision to reduce an entity's workforce as outside the ordinary course of business. In fact, such a decision might be in the ordinary course of business given the economic circumstances. On the other hand, should the economic downturn be severe enough, even workforce reductions might not be sufficient to address the economic concerns of the entity, thus requiring more extreme measures.

We believe that the proposed definition of a going concern presumption should be modified to be more consistent with the definition in the auditing standards, which focuses on "substantial disposition of assets outside the ordinary course of business, restructuring of debt, externally forced revisions of its operations, or similar actions."¹ A single definition which is consistent between US GAAP and the auditing standards would provide significant benefit to all parties and stakeholders.

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

¹ AU-C 570.02

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?

Yes, we agree that management should be responsible for assessing and providing disclosures around going concern uncertainties. Since the financial statements are their responsibility, management is in the best position to understand the significant risks the entity is facing as well as any potential mitigating factors. Management is also best suited to provide the going concern analysis and assumptions. Also, we agree that US GAAP should include guidance around the timing, nature, and the extent of disclosures about going concern uncertainties for all entities, SEC registrants and nonpublic entities alike.

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 that establishing guidance and thresholds for disclosures around going concern uncertainties will provide a standard baseline for entities to follow which in turn will reduce potential diversity in practice related to the timing, nature, and extent of going concern disclosures. As currently drafted, we believe that the required SEC disclosures are more focused and specific to going concern uncertainties and would provide incremental benefit to users of the financial statements. However, we believe that the additional disclosures required by a SEC registrant should not create redundancies of the disclosures included elsewhere in the registrants filing (e.g. risk factors, MD&A and liquidity).

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.

While we generally believe that management has the objectivity necessary to assess and is best equipped to provide disclosures on uncertainties about the entity's ability to continue as a going concern, we believe management will find it difficult to objectively evaluate borderline situations because of the perceived adverse view attached to any disclosure of uncertainty regarding an entity's going concern status. Use of a "more likely than not" threshold will result in situations where management will naturally be reluctant to conclude that the level of uncertainty requires disclosure. Consistent with our response to Question 1 above, we believe this situation is best addressed through modification of the definition of a going concern.

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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 with the proposed frequency of the going concern assessment. While performing an interim assessment will create additional effort and work on behalf of preparers, we believe this additional interim work will be beneficial not only to investors and other stakeholders in providing timely information, but also be beneficial to management in preparing the annual year end assessment.

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?

Yes, we believe that the proposed disclosures in the ED for a SEC registrant should have, and do have, a more specific focus on going concern uncertainties as compared with other SEC disclosure requirements. Inevitably, there will be some overlap and redundancies in these disclosures. However, we anticipate that the main focus of the required going concern disclosures in the footnotes of the financial statements will be more specific, outlining only relevant information regarding significant conditions and events which management believes address any going concern uncertainties.

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.

Other areas of a public filing have different thresholds and requirements when compared to the proposed disclosures in the ED for a SEC registrant. While the going concern disclosures and other disclosures in the SEC filing are interrelated, we would anticipate that disclosures in the financial statement footnotes around going concern uncertainties would be meaningful as long as management devoted the time and effort to provide a meaningful disclosure rather than trying to conform all the disclosures in the filed document.

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 are concerned about the auditing procedures that would be required in connection with forward-looking statements as well as the amount of evidence which would be required to support such statements. Additionally, we are concerned about situations where management may not have formulated specific plans to address uncertainties expected to occur within the time frame for disclosure. Assuming no specific management plan exists or such management plans are generic, certain of the disclosures become speculative and are based on what management might do or would like to do, which is not auditable. We believe it is significant that the SEC requirement that management address liquidity issues is in the MD&A section, which is not audited.

We recommend that disclosures focus primarily on significant, known uncertainties and avoid forward-looking statements regarding management's plans, except in situations where substantial doubt about the entity's ability to continue as a going concern exists. Creating too much accounting guidance around disclosures about what might be significant in the future and requiring such disclosures to be audited places a significant burden on the auditor.

Question 9:

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

Our main concern with the current definitions in the proposed ED is that they should align with the definitions in the auditing standards. Any differences between definitions would create inconsistencies in how the proposed ED would be implemented by an entity and how an auditor would audit the disclosures. Also, some of the proposed disclosures will potentially create additional subjective estimates and projections that would need to be reviewed and audited. Additionally, the new going concern requirements for an entity will create additional controls, procedures, and monitoring efforts which will need to be assessed and tested by auditors – thus potentially increasing the costs associated with an audit.

Under the definitions in the ED, auditors would be required to test and document where they had considered all known uncertainties expected to occur during the following 24-month period as well as management's plans to address such uncertainties. They would also be required to substantiate their conclusions regarding what was considered "ordinary course of business," and to obtain support for the related disclosures. This presents auditors with a recurring and significant challenge in situations where the threat to an entity's ability to continue as a going concern is low to moderate. When entities believe no threat to their status as a going concern exists, they may be understandably reluctant to incur the costs necessary to prepare comprehensive analyses to support that fact. For example, an entity which is enjoying profitable operations and believes it has a bright future might nevertheless have some of its debt coming due within the 24-month period, which creates uncertainty regarding its ability to repay or

refinance such debt. Auditors will be faced with having to perform investigative procedures to determine that such analyses are complete and provide an adequate basis for reaching a conclusion regarding the adequacy of any disclosures. Management may be dismissive of the uncertainty based on current economic performance. This will place a substantial amount of the burden on the auditor to make sure that it has the appropriate evidence necessary to substantiate a conclusion that no going concern disclosures are necessary. This will be required, even though management views the situation as a foregone conclusion.

We are also concerned about look back situations which could arise when general economic conditions deteriorate. Situations could arise where obligations are expected to be met in the ordinary course of business through a refinancing. A downturn in the economy could make such refinancing far more difficult to obtain even though the entity has an excellent credit rating. It would be a significant burden on auditors if they were forced to consider potential alternative circumstances when evaluating what would be considered within the ordinary course of business. Certain events are outside the control of the entity, such as a refinancing, and could put auditors in a difficult position. Management is likely to view a refinancing as being within the ordinary course of business, which could create conflicts. Ultimately, resolution of these conflicts would rest with the auditor.

Question 10:

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

The level of incremental costs will vary by entity depending on their specific facts and circumstances. As such, it is difficult to quantify the actual incremental costs and whether those costs outweigh the expected benefits. Many uncertainties which must be considered in the going concern analysis are already disclosed. For example, debt maturities are already disclosed. Incorporating additional disclosures regarding any uncertainties about management's ability to repay such debt will likely increase costs, especially if it has to be audited.

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?

We support a well defined and clear threshold for the going concern disclosures which will ultimately reduce the amount of diversity in current disclosures. However, we are concerned about the application of a more-likely-than-not threshold for disclosure. We believe that the more-likely-than-not threshold needs to be modified to a higher threshold, such as reasonably likely or probable.

Our concern with the current more-likely-than-not threshold for the 12-month period is that it could be interpreted by preparers as a point estimate which will require precise measurement. Due to the inherent uncertainties in developing estimates around future events for an entity, we would suggest that additional emphasis in the ED be placed on

qualitative factors such that preparers are not solely focused on the quantitative aspects of the thresholds.

We support a threshold that incorporates a higher degree of probability, or a reasonably likely threshold in place of the current more-likely-than-not threshold in the ED. We believe that a reasonably likely threshold would be beneficial, especially in close call situations, and would make the going concern assessment more operable.

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?

We believe that a specific transaction may impact an entity and require it to make certain adjustments to its operations. However, such adjustments may not threaten the entity's ability to continue as a going concern. We are concerned that specific assessments of individual transactions made in the context of evaluating uncertainties regarding the entity's ability to continue as a going concern will create too much microanalysis. A going concern analysis should be more focused on the entity as a whole. We support disclosures of uncertainties, which could focus on individual transactions. However, we do not support requiring judgments to be made regarding the significance of the impact of specific transactions on the overall status of the entity as a going concern unless the definitions are modified.

c. Do the proposed amendments adequately contemplate qualitative considerations? Why or why not?

We believe the proposed amendments adequately contemplate qualitative considerations but as discussed above, we would recommend changing the current more-likely-than-not threshold as it may drive preparers to only consider quantitative considerations instead of considering both quantitative and qualitative factors.

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?

We believe such information may be interesting; however, we are not convinced all of it is necessary. Disclosure of the funds necessary to maintain operations in the ordinary course of business is a moving target. Further, management may plan for certain growth opportunities which could require additional funds beyond those necessary to maintain current operations. Failed attempts to grow a business can create uncertainty and use up funds necessary to maintain current operations comparable to those required to meet future obligations. We believe these considerations go beyond what is necessary and create an unnecessary burden on both management and its auditors.

We recommend such considerations be modified to address uncertainties without requiring management to assess all the uncertainties which could adversely affect its ability to meet its obligations. Additionally, we believe required assessment of conditions and events that could mitigate the entity's potential inability to meet its obligations could

be too speculative. We continue to struggle with any requirement to differentiate management plans which are within the ordinary course of business from those that are not.

e. Are your views the same for SEC registrants and non-SEC registrants?

Our views are the same for both SEC registrants and non-SEC registrants. However, we believe that non-SEC registrants will find it more difficult to prepare the necessary information to support their assessments of uncertainties and they will consider preparation such analysis unnecessary in situations where the level of uncertainty is moderate or lower.

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 believe that the consideration period of 24 months is appropriate as long as the definitions are modified to prevent unnecessary quantitative projections. We believe the considerations which should be made in connection with the first 12 months and the second 12 months should not be differentiated.

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 such a distinction is unnecessary. We think it is more important that management's plans address the uncertainty in question and that the plans be viable as opposed to whether or not they are within the ordinary course of business. Users of financial statements will be more interested in the substance of management's plans, than in whether or not the uncertainty caused management to formulate plans which might be considered outside the ordinary course of its 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?

We do not agree that disclosures are necessary whenever management's plans might be outside the ordinary course of business, unless such plans represent a substantial deviation that would significantly alter the entity's business or his ability to do business. Management may

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plan to take actions outside the ordinary course of business which are appropriate under the circumstances and which would not significantly alter the entity's business or its ability to do business.

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 with the proposed disclosures.

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?

We agree with the likelihood-based definition proposed in the ED regarding substantial doubt. However, we are concerned that such a definition may become difficult to apply after the initial 12 months. The number of uncertainties and potential changes in circumstances which could occur during a 24 month period could be significant. Accordingly, we believe that the assessment time frame for substantial doubt consideration should be 12 months instead of 24 months.

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 an SEC filer's management should make the necessary disclosures regarding substantial doubt about the entity's ability to continue as a going concern. However we believe that thresholds for making such disclosures should be consistent with existing SEC requirements for auditors.

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.

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This differentiation is confusing. It is difficult to imagine that substantial doubt disclosures will not be made in situations where substantial doubt regarding the entity's ability to continue as a going concern exists. Accordingly, we would recommend that all entities be required to make substantial doubt disclosures and that no distinction be made between SEC filers and non-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?

While we agree that the proposed definition is at the upper end of the range in the present interpretation of substantial doubt by auditors, we do not believe it will result in fewer substantial doubt determinations. Any disclosure of substantial doubt regarding an entity's ability to continue as a going concern is viewed by users of financial statements as a dire assessment with severe consequences. Accordingly, auditors currently do not make such disclosures unless they consider them to be absolutely necessary. This is understandable since such disclosures could have adverse consequences on the entity's ability to execute the actions it considers necessary to continue as a going concern.

Use of the "substantial doubt" terminology has been around long enough that its meaning is now ingrained in the business world. Accordingly, we believe it will always carry with it a certain stigma. Additionally, we believe disclosures of any substantial doubt regarding the entity's ability to continue as a going concern will be made by auditors in their audit opinions as an emphasis-of-a-matter disclosure.