



September 24, 2013

Technical Director, File Reference No. 2013-300
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Re: File Reference No. 2013-300 Exposure Draft of the Proposed Accounting Standards Update – Disclosure of Uncertainties about an Entity’s Going Concern Presumption (Topic 205)

We are writing on behalf of the Emerging Standards Committee (ESC) of the Kentucky Society of Certified Public Accountants (KyCPA). The KyCPA is the sole professional organization representing CPAs in the Commonwealth of Kentucky. Its 5,100 members are engaged in business communities throughout the Commonwealth and have a comprehensive grassroots view of the needs of businesses, ranging from large public companies to small owner-managed businesses. KyCPA’s ESC consists of a group of KyCPA members organized to monitor the activities of accounting and auditing standard setters, as well as government authorities, with the objective of participating in the standards-setting process by providing thoughtful comment on developing issues.

Our comments for your consideration are as follows:

Overall Comments – We do not believe the proposed standard as currently written is operational. Specifically, we have very serious concerns regarding the 12-24 month assessment period for the going concern presumption. We support the objective of disclosure of material uncertainties regarding an entity’s liquidity conditions for this time frame. However, the board has constructed a framework focusing on whether management’s actions are within or outside the “ordinary course of business” (as defined) and further, whether such actions are “likely to be effectively implemented” and “likely to mitigate the adverse conditions.” This framework, for this time frame (12-24 months), is simply not operational and is not necessary to achieve the objective of relevant disclosure for the same time frame.

Our concerns with this framework for the 12-24-month time frame are that it is unnecessarily complex and in many cases will be very difficult to audit, causing time delays and increased costs in the financial reporting process. These costs are unnecessary to achieve the desired reporting objectives.

We agree with the framework as proposed for the 12-month period. We believe these proposed accounting standards are relevant, appropriate and not significantly different than existing practice as “operationalized” under auditing standards.

Conceptual Weakness Exposed – We are not certain if the “Going Concern Basis of Accounting” (GCBOA and BOA) exists in the Codification, or if it is merely the default BOA when an entity is not in the Liquidation BOA. Under GAAP, the Liquidation BOA is used when liquidation is imminent. This proposal seeks to codify the “Going Concern Presumption” (GC Presumption) as an entity’s ability to “...realize its assets and meet its obligations in the ordinary course of business.”

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Clearly, a great many entities appropriately report using the GCBOA when they do not meet the GC Presumption. These entities are operating outside the “ordinary course of business” (as defined); however, liquidation is not imminent. This is not an unusual condition within a free enterprise system. Entities can operate in this status for years and never liquidate. Further, when significant macro events occur, such as the 2008-09 credit crisis, recessions, etc., many seemingly financially strong entities can find themselves “outside” the ordinary course of business because the ordinary course of business has changed (lender credit, etc.).

Accordingly, the lead-in to proposed ASC 205-40-05-01 should be corrected. The GC Presumption (as defined) is not the only criteria for the GCBOA, or otherwise not using the Liquidation BOA. We suggest the Board appropriately define the GCBOA and clarify these important distinctions (within or outside the ordinary course of business).

Going Concern Presumption Definition - For important practical and operational reasons, as noted in the two sections above, we suggest the GC Presumption be limited to 12 months from the financial statement date. The U.S. capital markets have become accustomed to this threshold established many decades ago. This 12 month threshold synchronizes more easily with auditor standards, as well as the entity’s normal budgeting cycle.

Further an important factor for the Board to consider follows: For many entities, a company may be out of compliance with a loan covenant measured at the financial statement date. In these circumstances, it is common for the lender to grant the entity a waiver of non-compliance and such waiver extends for 12 months following the balance sheet date. Such a waiver often has two consequences, 1) if the applicable debt had non-current terms, then such debt could remain non-current; 2) the auditor’s “substantial doubt” was removed for this condition.

This 12 month debt covenant waiver process is not unusual. Changing to a 24-month period would be extremely problematic. It is unknown whether lenders will waive such non-compliance for 24 months. If they do not waive, then a large number of entities will receive going concern report modifications that currently do not. This would represent a dramatic change in existing reporting practices that we do not believe the Board intends or fully appreciates.

In summary, the 12-month period is appropriate for the GC Presumption as it is accepted and understood by users and regulators, operational for entities and auditors and cost-beneficial.

Disclosure Requirements for the 12-24-Month Period – As noted above, we believe it is beneficial to users to receive relevant disclosures of material uncertainties in liquidity conditions for this timeframe. However, such disclosure should NOT be tied to the GC Presumption. We believe this linkage causes unnecessary complexity and introduces significant costs to the entity with no discernible benefit.

We believe the basic approach outlined above provides simplification, improved consistency, operationality, enhanced user understandability and represents an improvement in existing practice.

Other comments related to questions for respondents:

Question 2: We believe management should be responsible for assessing and providing disclosures about going concern uncertainties (12 months) and other material liquidity uncertainties (12-24 months).

Question 3: We suggest there should be no difference in reporting between SEC and non-SEC companies. The SEC requires significant, relevant liquidity and related information be disclosed in the non-GAAP section of company filings. GAAP does not need to be differentially greater for SEC filers because existing information is not deficient.

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Question 4: We believe management is inherently biased and the auditors will be significantly involved in ensuring compliance. Of course, the auditors will be involved regardless because auditing standards will likely adopt its own standards requiring auditors to report on going concern. This is one of the reasons we believe the assessment period for the going concern presumption be limited to 12 months to ensure the standard is reasonably auditable. The Board should be aware most companies do not budget for 24 months. Notwithstanding, budgets and projected activities for this duration are highly suspect given the inherent and increasing uncertainties that occur the further a budget goes out. As noted above, we suggest relevant disclosure of material uncertainties be made; however, such disclosure be bifurcated from the GC Presumption. This will ensure the objective of full and clear disclosure for relevant, material conditions, yet allow the proposed standard to be operational and not cost prohibitive.

Question 8: Of course, the proposed changes increase legal liability for management and the auditors. This is one of the reasons we suggest limiting the GC Presumption to 12 months as this duration is known to the user community and is currently operational. Including the extended 24-month period within the GC Presumption increases complexity and cost unnecessarily. The objectives of relevant disclosure could be met in the manner described above.

Question 9: As noted above, forecasted and projected information beyond 12 months is inherently and pervasively uncertain. Further, the loan covenant waiver situation described on page 2 will need to be dealt with and it is unknown how the lender will do so. Extending the GC Presumption period simply adds unnecessary costs and issuance delays to the process for no benefit.

Question 12: See all comments above.

Question 19: We do not believe current practice defines substantial doubt at the upper end of the range. We believe current practice operationalizes substantial doubt around 51%, or more likely than not, as is currently proposed.

Thank you very much for considering our thoughts.

Sincerely,

A handwritten signature in blue ink that reads "Glenn Bradley". The signature is written in a cursive, flowing style.

Glenn Bradley, CPA, Chair
On behalf of the Emerging Standards Committee
Kentucky Society of CPAs