



LETTER OF COMMENT NO. 74

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Re: File Reference No. 1650-100

Grant Thornton LLP appreciates the opportunity to comment on the Financial Accounting Standards Board (the Board) Exposure Draft of the Proposed Statement of Financial Accounting Standards Going Concern. We support the Board's effort to include guidance on the going concern assumption in the accounting literature established by the Board. Although we support issuance of the proposed Statement in principle, we believe that certain provisions should be modified.

Paragraph 1 of the proposed Statement refers to a "going concern" but does not define this term. This term is also not defined in the current Codification nor in any existing accounting guidance. The current auditing guidance relating to going concern promulgated by the AICPA and PCAOB indicates that the going concern assumption may be contradicted by evidence of an entity's "inability to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of business, restructuring of debt, externally forced revisions of its operations or similar actions" (AU Section 341, paragraph .01). The Standard as proposed indicates that the financial statements should be prepared on a going concern basis unless management either intends to liquidate the entity or to cease operations or has no realistic alternative but to do so. We recommend that the more detailed guidance from the auditing standards about what contradicts the going concern assumption be incorporated into the accounting guidance. Further, it is not clear from the proposed Statement whether an entity that is operating under the supervision of a bankruptcy court while is seeks a debt restructuring plan but is not in the process of liquidation would be considered a going concern. It would also be helpful to clarify whether and when an entity that is finite-lived by design would be considered a going concern.

We note that the proposed Standard, as well as IAS 1, *Preentation of Financial Statements*, does not limit the consideration beyond one year to a reasonable period of time, a qualification that does exist in the authoritative auditing literature in the United States. The requirement in paragraph 4 to consider "all available information about the future" without limiting the future to a reasonable period of time seems to require an entity to consider information for an indefinite

period of time. Further, the Statement is not clear on whether management's intent to liquidate the entity or cease operations or the lack of alternatives is limited to a period of time. There could be a situation where an entity takes into account information on a large debt payment that is due in five years in its assessment of the going concern assumption. If management concluded that in five years it would likely have no alternative but to cease operations or liquidate the assets of the entity due to the debt obligation, would it conclude that the going concern basis is appropriate for the financial statements even if there were no indicators of other conditions or events that cast doubt on the going concern assumption before the due date of the debt payment? In this example, we do not believe it would be appropriate for management to conclude it will use something other than the going concern basis of accounting. Similar issues could arise with limited life entities. We believe that the requirement to consider all available information related to the going concern assumption should alert financial statement users to near-term and unavoidable risks.

Paragraph 5 of the proposed Statement lists conditions and events that, in aggregate, could indicate that there is substantial doubt about a reporting entity's ability to continue as a going concern. While we agree with the items listed and agree that the list is not all-inclusive, we suggest a revision to two of the factors. First, the item "restructuring of debt" should be revised to "troubled debt restructuring" to remain consistent with the lead-in to item b of paragraph 5 that states the items in the sub-paragraph are indicators of financial difficulty. Debt may be restructured in the absence of financial difficulty. Second, under sub-paragraph c of paragraph 5, an indicator mentioned is "substantial dependence on the success of a particular project." We suggest that this item be revised to indicate that the particular project's success is in doubt, as many entities' success depends on the success of a particular project. The revision of the two items described above in paragraph 5 would make all of the factors listed in that paragraph signs of potential doubt about an entity's ability to continue as a going concern.

We suggest certain additions to paragraph 6 of the proposed Standard, which lists management's considerations of its plan for dealing with the adverse effects of conditions or events that cast doubt on the entity's ability to continue as a going concern. Under paragraph 6(b), we suggest the addition of two other considerations: 1) the availability of debtor-in-possession financing and apparent feasibility of the successful adoption of a debt restructuring under court supervision and 2) the availability of parent or investor support, including consideration of the parent or investor's ability to provide adequate support, and the existence of written agreements to provide adequate support that will be disclosed in the financial statements. Further, we suggest adding to paragraph 6(d)(1) the phrase "and/or convert debt into equity." The foregoing revisions to paragraph 6 are common management considerations of plans to mitigate the effects of conditions or events that raise doubt about an entity's ability to continue as a going concern.

Paragraph 7 of the proposed Statement indicates, in sub-paragraph f, that the entity must provide disclosure to enable users of financial statements to understand "information about the recoverability or classification of recorded asset amounts or the amounts or classifications of

liabilities." We suggest that this item clarify what "information" the Board would like the entity to disclose, as the current requirement is too vague.

The proposed Statement would be effective for interim or annual financial statements issued after ratification of the FASB Accounting Standards Codification. The effective date may pose an operational problem for preparers and auditors if the AICPA and/or the PCAOB rules regarding going concern are not revised to be consistent with the accounting guidance in the proposed Standard. The auditor may have different requirements for the consideration of the going concern assumption under existing auditing literature and the proposed Standard.

We appreciate the opportunity to comment on the proposed Standard and would be pleased to discuss our comments with the FASB staff. If you have any questions, please contact L. Charles Evans, Partner, Accounting Principles Consulting Group, at 832-476-3614 or at Charles. Evans@gt.com.

Very truly yours,

/s/ Grant Thornton LLP