ILLINOIS CPA SOCIETY

September 24, 2013

Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
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The Accounting Principles Committee of the Illinois CPA Society (Committee) appreciates the opportunity to provide its perspective on *FASB Proposed Accounting Standards Update—Presentation of Financial Statements (Topic205): Disclosures of Uncertainties about an Entity's Going Concern Presumption.* The amendments in the proposed Update are intended to provide guidance in U.S. GAAP of when and how going concern uncertainties should be disclosed and provide preparers with guidance in U.S. GAAP about management's responsibilities for evaluating and disclosing going concern uncertainties, reducing existing diversity in footnote disclosures.. The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated.

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 agree with definition.

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 disclosure 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 believe that management is in the best position for assessing going concern and should be responsible for disclosure. The assessment of going concern ultimately should come from management as it is an uncertainty about future events. Management is currently responsible for disclosing estimates and uncertainties and we believe an analysis of going concern should not be held as an auditor's responsibility. The guidance within U.S. GAAP is necessary to avoid confusion and alleviate diversity amongst current practice and should provide a baseline for information required to be disclosed, thus being a helpful tool for Stakeholders and the auditors to evaluate.

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 believe the amendments would reduce diversity in the timing, nature, and extent of footnote disclosures only if the entity is to evaluate the ability to meet its obligations as they become due within 12 months after the financial statement date. As currently proposed, the evaluation period of 24 months, along with the additional requirements to fully explain management's intentions and plans would increase the timing and the extent of footnote disclosures and would lend to speculation and unreliable information on conditions and events "known or probable" beyond the 12 months. For SEC registrants, because management already is required through MD&A analysis to disclose information regarding liquidity, risks, and known uncertainties, the proposed amendments would only incorporate some of this already published information into the footnotes but without the Safe Harbor provision. For non-SEC registrants, the second 12 month evaluation period would increase timing, nature and extent of footnote disclosures.

4. *The proposed amendment 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 management is in the best suitable position to analyze the future unknown uncertainties regarding the entity. Although management may have a biased opinion, their opinion would likely be more accurate than an auditors' opinion. How would this be any different than an entity's management responsibility in disclosing significant accounting estimates? Because the proposed amendments provide a base guideline of items to be considered in determining an entity's ability to continue as a going concern, management can provide auditors' with their considerations and expectations regarding the uncertainty in the future. Those expectations can then evaluated by the auditor for reasonableness and accuracy in order to issue their opinion whether the financial statements are in accordance with GAAP.

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 assessment period.

6. *For SEC registrants, the proposed footnote disclosure 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 narrow 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?*

   We agree the proposed footnote disclosures would have a narrow focus on going concern uncertainties compared with the SEC's disclosure requirements. The SEC requires management to disclose information regarding an entity's risks, liquidity, and known uncertainties, amongst other requirements. If an SEC filer were to have an uncertainty

regarding going concern, there would be a significant amount of emphasis on the matter throughout the MD&A analysis. The proposed footnote disclosure would be a summary of some of the information already being disclosed as required by the SEC but without the Safe Harbor provision. The redundancy that would result from this proposal would be helpful for user reviewing stand alone financial statements that are not accompanied by the MD&A analysis.

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 disclosure requirements would have an effect on the communicative value as the information required to be disclosed would be helpful for standalone financial statements.

8. *The proposed footnote disclosures about going concern uncertainties would result in disclosure of some forward-looking information in the footnote. 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 limitation on the type of information that prepares would disclose in the footnotes about going concern uncertainties? Would a higher threshold for disclosures address those concerns?*

   There would be significant challenges in auditing forward-looking information 24 months beyond the financial statement date. For many non-public entities, this information is not relatively available, nor do those entities necessarily have the resources available to analyze this information, thus often it is currently left upon the judgment of the auditor. One cannot predict with certainty the future of economic events that could significantly impact an entity's operations. The information that may be provided for a period up to 24 months after the financial statement date may be very vague and speculative, adding little or no value to the financial statements.

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

   Because the information provided by management is regarding future uncertainties, the information is very difficult to audit as it relates to management's assumptions. In current practice, often financial statements are held prior to being released until an event occurs. An example would be an entity's inability to make payment on a note that matures subsequent to the financial statement date which the entity would have the inability to operate as a going concern. Often the auditors may wait until this note has been extended, or refinanced to avoid issuing an emphasis-of-matter paragraph ongoing concern in the audit report.

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

    We believe there are benefits under the proposed amendments for the first 12 months after the financial statement date. The incremental costs may not outweigh the benefits for the second 12 months assessment period of known or probably that the entity will be unable to meet its obligations within 24 months after the financial statement date because the entity cannot use actions taken outside the ordinary course of business. As such, this could potentially lead to inaccurate going concern disclosures. For example, as noted in example 1 paragraph 205-40-55-6, refinancing the debt could not be used as a factor as this was outside the ordinary course of business activities. If an entity is able to refinance, obtain new debt or capital that is outside the

ordinary course of business, this should be allowed to be considered as a determination for the 24 month period.

11. *Under the proposed amendments, disclosure 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 believe the disclosure threshold is appropriate. Management and auditors will be faced with significant challenges in analyzing future events.

    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 the challenges for both are similar.

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

        The amendment does adequately contemplate qualitative considerations. Evaluating going concern is a qualitative consideration as it involves assumptions regarding future events.

    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 the guidance is helpful for an entity assessing its potential inability to meet its obligations. As more fully explained below in question 14, we do not agree with example 1 regarding an entity not considering refinancing as an ordinary course of business based upon the facts in example 1.

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

        We believe there should be no differences between SEC registrants and non-SEC registrants. Non-SEC registrants should be allowed to use the substantial doubt criteria because the ability to use actions taken outside the ordinary course of business to mitigate the risks of going concern can provide valuable information to the user of the financial statements.

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 there is a significant distinction between the first 12 months and the second 12 months because of the timing of uncertainty of future events. The first 12 months is an easier period for management to evaluate going concern presumptions with more accuracy. The next 12 months potentially could have too many unknowns which are unforeseeable and the criteria of known or probable is reasonable to evaluate going concern for this time period.

13. *Under the proposed amendments, management would be required to distinguish between the mitigati ng 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 there are significant differences between management's plans in and outside the ordinary course of business. Actions taken outside the ordinary course of business should be noted in the footnotes to the financial statements as these actions could significantly change how the entity is going to operate in the future. Management's plans should not be considered differently between the two different disclosure thresholds. All of management's plans need to be evaluated if those plans can mitigate the effect of the going concern presumption.

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 agree with the definition; however we disagree with how the definition is being used in example 1 in paragraph 205-40-55-5 and 205-40-55-6. We believe refinancing the debt should be considered as part of the ordinary course of business. The mere fact that since the Company already has debt from the past should be considered part of the ordinary course of business, and refinancing the debt is managing the future cash flows of current obligations. We believe the entity as used in the example, should be allowed to use refinancing the debt as part of the ordinary course of business. There may be unintended results on implementing the standard resulting in going concern disclosures which are not accurate, especially with the second 12 month period that needs be analyzed.

15. *Do you agree with the nature and extent of disclosure outlined in paragraph 205-40-50-7? Should other disclosure principles be included?*

    We agree with the disclosures as outlined.

16. *The proposed amendments define substantial doubt as existing when information about existing conditions and events, after considering the mitigation effect of management's plans (including those outside the ordinary course of business), indicates that it is known or probably that an entity will be unable to meet its obligation 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 definition for substantial doubt. We believe the 24-month consideration period will be difficult to evaluate as there are many uncertainties which could occur that management could not reasonably foresee occurring in the future. This could lead to inaccurate going concern disclosures, which ultimately could affect the entities ability to obtain new investors and/or additional capital if such inaccurate disclosures are made.

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 with the substantial doubt consideration as this can provide valuable information to the users of the financial statements.

18. *Do you agree with the Board's decision not to require an entity that is not an SEC filer to evaluate or disclosure when there is substantial doubt about its going concern presumption? If not, explain how users of non-SEC filer's financial statements would benefit from a requirement for management to evaluate and disclose substantial doubt.*

    We do not agree with the Board's decision not to require an entity that is not as SEC filer to evaluate or disclosure the substantial doubt criteria. We believe this evaluation can provide useful information to the users of the financial statements and such criteria should not be limited to SEC filer's only. In addition, this evaluation is required of the auditors when forming an opining on the financial statements regardless if it is an SEC filer or not and thus we feel it would be not be appropriate to differentiate management's requirements under the accounting guidance.

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 difference from what is currently observed? If so, by how much? Is such a decrease an improvement over current practice? Why or why not?*

    We agree the definition of substantial doubts most closely approximates the upper end of the range. With the additional guidance, there could be some situations if the note disclosures are adequate, there would be less need to modify the auditor's report. However, in current practice, a going concern disclosure typically results in a modified report, and this trend may continue. We believe if the second 12 month evaluation period is added to current auditing standards, because this increases the going concern evaluation period, it could lead to an increase in the number of audit opinions with an emphasis-of-matter paragraph.

We appreciate the opportunity to offer our comments.

Sincerely,

Scott G. Lehman, CPA
Chair, Accounting Principles Committee

Amanda M. Rzepka, CPA
Vice-chair, Accounting Principles Committee

APPENDIX A

ACCOUNTING PRINCIPLES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2013-2014

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to fully study and discuss exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

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Brian Chmiel, CPA	Crowe Horwath LLP
Frank Dery, CPA	PricewaterhouseCoopers LLP
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