

KPMG LLP 345 Park Avenue New York, N.Y. 10154-0102 Telephone Fax Internet +1 212 758 9700 +1 212 758 9819 www.us.kpmg.com

September 24, 2013

Technical Director Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, Connecticut 06856-5116

RE: Proposed Accounting Standards Update, "Disclosure of Uncertainties about an Entity's Going Concern Presumption" (File Reference No. 2013-300)

Dear Technical Director:

We appreciate the opportunity to respond to the Financial Accounting Standards Board's Proposed Accounting Standards Update, *Presentation of Financial Statements (Topic 205): Disclosure of Uncertainties about an Entity's Going Concern Presumption* (the "proposed ASU"). We agree that guidance on how going concern uncertainties affect financial statement presentation and disclosures should be in the authoritative accounting literature rather than the auditing literature and we support the Board's efforts to provide U.S. GAAP guidance about management's responsibilities for evaluating and disclosing going concern uncertainties.

We believe the following revisions to the proposal will improve the timeliness and usefulness of the disclosures and reduce the complexity and potential diversity in applying the standard:

- Modify the initial going concern disclosure threshold from "more likely than not" to "reasonably likely:"
- Eliminate the dual probability threshold for initial disclosure (more likely than not for months 1-12 and known or probable for months 13-24); and
- Provide additional application guidance on when and how management should consider its mitigation plans.

"Reasonably Likely" Disclosure Threshold

We believe the proposed disclosures in paragraph 205-40-50-7 regarding the nature and extent of going concern uncertainties would benefit financial statement users in periods before it becomes "more likely than not" that the entity will be unable to meet its obligations without taking actions outside the ordinary course of business. We believe an entity should begin providing disclosure of going concern uncertainties when it becomes "reasonably likely" that it will be unable to meet its obligations without taking actions outside the ordinary course of business. The disclosures described in paragraph 205-40-50-7 are appropriately flexible for preparers to communicate the extent and significance of the going concern uncertainty in their specific circumstances. A

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"reasonably likely" range of likelihood, consistent with SEC guidance, would trigger initial disclosure at a lower level of likelihood than "more likely than not," but would not trigger disclosure as soon as the entity concluded that it was no longer "remote" that it would be unable to meet its obligations. We believe initiating disclosure at the "reasonably likely" threshold would provide users with important information on a more-timely basis to assist them in forming their views about the uncertainty. We also believe using a "reasonably likely" range of possibility more appropriately acknowledges the inherent complexity and subjectivity of going concern uncertainty assessments.

Single Threshold for Evaluating Initial Disclosures

Paragraph 205-40-50-3 would initially require disclosure when the likelihood of an entity not meeting its obligations reaches (a) more likely than not for the first 12 months, or (b) known or probable for the second 12 months. We believe a single 24-month initial disclosure assessment period using a "reasonably likely" threshold (see above) would be more understandable and less complex to apply. We acknowledge the reliability of predictions decreases over time, but the additional effort and risk of inconsistency in applying the dual threshold approach for initial disclosure outweigh the benefit. A 24-month horizon using a "reasonably likely" threshold would be applied more consistently and provide more timely, decision-useful information to investors. We do, however, support the "probable" threshold for evaluating whether there is substantial doubt about an entity's ability to continue as a going concern.

Guidance on Consideration of Mitigation Plans

Paragraph 205-40-50-4 permits an entity to consider management's plans that are in the ordinary course of business and are likely to be effectively implemented to mitigate the adverse conditions and events. While we agree with the description of actions outside the ordinary course of business in paragraph 205-40-50-5 and the entity-specific determination discussed in paragraph 205-40-50-6, we believe additional guidance is needed to promote more consistent application of what constitutes actions outside the ordinary course of business. Paragraph 205-40-50-6 presumes management's plans primarily intended to alleviate default risk are outside the ordinary course of business "unless they are consistent with actions customary in carrying out the entity's ongoing business activities." The examples suggest that previous refinancing activities are considered in the ordinary course only if they had been undertaken to reduce interest cost (as opposed to avoid default). Accordingly, any refinancing plan would appear to be outside the ordinary course of business if it specifically addresses a default risk that itself gives rise to the going concern uncertainty. The ASU should provide debt maturity examples where management's plans to refinance are in the ordinary course of business, if that is consistent with the Board's intent.

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Additional guidance is also needed on evaluating the likelihood of plans (in or outside the ordinary course of business) being effectively implemented and mitigating the adverse conditions and events. For example, the ASU could provide factors to consider such as the magnitude of management's plans, the level of effort needed to execute on the plans, and whether, and to what extent, management controls the outcome of the critical elements of its plans. We believe the guidance should emphasize that in order for management's plan to "likely" be successful, the significant elements of the plan should be under sufficient management control. The Board also should address its intent for the meaning of "likely" in paragraph 205-40-50-4(f). Further, we believe guidance is needed on evaluating the quantity and persuasiveness of the available positive and negative evidence, for example, consistent with that provided in paragraph 740-10-30-23 on evaluating the recovery of deferred tax assets.

Because understanding the gross risk attributable to the underlying conditions and events that create uncertainty about an entity's going concern presumption (i.e., gross risk) and the net risk remaining after considering the impact of management's plans (net risk) is critical to disclosure conclusions, we believe additional clarification is necessary. We would suggest including the following chart as a supplement to paragraphs 205-40-55-1 and 55-2 in the proposed ASU to illustrate this concept. Although we have expressed concerns elsewhere throughout this letter regarding the use of the more-likely-than-not threshold, the thresholds for disclosure as defined in the proposed ASU have been referenced here for convenience.

Gross Risk (Before			
Consideration of	Success of Management's Plans	Net Risk (After	
Management's	In the Ordinary Course of	Consideration of	Disclosure
Plans)	Business 1	Management's Plans)	Threshold
Probable	Less than likely	Probable	Substantial doubt ²
	Likely	More likely than not	More likely than not
	Probable	Less than more likely	No disclosure
		than not	
More Likely than Not	Less than likely	More likely than not	More likely than not
	Likely	Less than more likely	No disclosure
		than not	
	Probable	Less than more likely	No disclosure
		than not	

¹ Considerations in determining the likelihood of success of management's plans would include nature of the plans, frequency of actions, and magnitude of the plans. In evaluating if the entity has met the disclosure threshold as defined in the proposed ASU, the mitigating effect of plans outside the ordinary course of business would not be considered (Paragraph 205-40-50-5).

² The mitigating effect of plans outside the ordinary course of business would be considered in determining whether there is substantial doubt.

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The "Net Risk" and "Disclosure Threshold" conclusions in the above table could change depending on how the final standard defines "likely" in the context of evaluating the likelihood of success of management's plans.

The additional guidance suggested in the paragraphs above will assist in determining whether the initial disclosure threshold has been met and in determining whether there is substantial doubt. In addition, we believe additional guidance on these assessments is critical to consistent application of the proposed ASU.

Non-SEC Filers

We do not believe the Basis for Conclusions sufficiently explains the differences in the needs of users of non-SEC financial statements that would suggest that the assessment of "substantial doubt" should not apply to non-SEC filers. That assessment and related disclosures are currently required based on the auditing standards and we believe it would be appropriate to include those disclosure requirements for non-SEC filers in the accounting literature.

Convergence with IFRS

The proposed ASU acknowledges important differences between its proposed guidance and the guidance in IAS 1, *Presentation of Financial Statements*, and that the IASB is currently in the process of clarifying that guidance. Given that both Boards' projects are active, we believe there is an opportunity to converge on some key concepts (i.e., when financial statements would no longer be prepared on a going concern basis, when initial disclosures about going concern uncertainty begin, the assessment period). We believe the Board should be proactive in coordinating its efforts with the IASB to achieve as much convergence as possible in this area.

* * * * *

Our responses to certain Questions for Respondents are in Appendix A.

If you have any questions about our comments or wish to discuss matters further, please contact Mark Bielstein at (212) 909-5419 or Angela Storm at (212) 909-5488.

Sincerely,

KPMG LLP

Appendix A: Responses to the Questions for Respondents

Overall

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?

Because entities will evaluate going concern uncertainties solely on the ability to meet their obligations, it is not clear how, or for what purpose, the definition of the going concern presumption is used. The proposal says the going concern presumption is an "inherent presumption in preparing financial statements under U.S. GAAP," but there is no explicit going concern presumption in the current Concepts Statements. U.S. GAAP specifies different impairment requirements for different assets, incorporates intent and ability in assessing classification and recoverability of certain assets, and addresses other matters that may indirectly relate to going concern uncertainties; however it does not include a presumption that an entity will "be able to realize its assets and meet its obligations in the ordinary course of business." The proposed definition of a going concern presumption may result in user expectations about the realizability of assets that exceed or contradict existing U.S. GAAP.

We do not believe it is necessary to define a going concern presumption as a basis for preparing financial statements. In addition, because the proposed analysis is solely dependent on whether an entity is able to meet its obligations, the entity could be a going concern even if it is not able to realize all of its existing assets. We believe the ASU could simply describe a going concern as an entity that is able to meet its obligations in the ordinary course of business.

A definition of the going concern presumption as a basis for preparing financial statements is also unnecessary based on the conditions for applying the liquidation basis of accounting. The conditions to apply the liquidation basis are not directly related to whether the entity is able to realize its assets or meet its obligations. The liquidation basis is used only when liquidation is imminent (as defined in Subtopic 205-30). Liquidation is imminent (as defined by the Board) only when a liquidation plan has been approved or imposed. As a result, the liquidation basis may be appropriate for entities that otherwise would be going concerns and, in other situations, the liquidation basis may not be allowed for an entity that is not a going concern.

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 agree that U.S. GAAP needs to address management's responsibility for assessing and disclosing going concern uncertainties just as it addresses management's responsibility for assessing other uncertainties in preparing financial statements. However, as discussed in our

cover letter and response to Question 18, we do not agree that management's responsibility to evaluate and disclose substantial doubt should differ based on whether the entity is an SEC filer.

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 believe the proposed ASU would reduce diversity in the timing, nature, and extent of disclosures and provide relevant information to financial statement users. However, given the judgments needed to apply the proposed ASU, some diversity will continue. As discussed in our cover letter, we believe diversity could be further reduced if the initial disclosure threshold was modified from "more likely than not" to "reasonably likely." Additional application guidance on when, and how, management can consider its mitigation plans would also assist in reducing diversity in applying the standard.

While some of the proposed going concern disclosures may be redundant for some SEC registrants, we believe the incremental benefit of the disclosures outweighs the redundancy concern. We believe the disclosures, even if redundant, belong in the notes to the financial statements because the related uncertainties may impact other assumptions, estimates, and assertions in the financial statements. In addition, users will benefit from the increased emphasis and auditor involvement resulting from placement in the notes to the financial statements.

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 disagree that management's inherent bias would result in going concern disclosures that provide investors little incremental benefit. Other assertions and disclosures in the financial statements require significant judgment by management. Potential management bias is not a valid basis to abandon standard setting on disclosure about going concern uncertainties or any other judgments made in preparing financial statements. Our proposed change to the initial disclosure threshold would simplify the evaluation of whether disclosures would be appropriate and the resulting disclosures would allow preparers to communicate the conditions and events that give rise to the uncertainties, the extent and significance of those uncertainties, and their plans to address them. We believe management is capable of, and should have the responsibility for, making those judgments.

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 a going-concern evaluation is needed each reporting period. However, we disagree with the transition proposed in paragraph 205-40-65-1 that would require entities to adopt the ASU for the first time in the first interim period in the year of adoption. We believe an entity should initially apply the amendments at a fiscal year end to coincide with preparation of annual financial statements.

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?

As discussed in our response to Question 3, certain proposed disclosures may overlap with existing SEC liquidity and risk factor reporting requirements for some registrants. However, we believe the proposed financial statement disclosures provide information fundamental to the financial statements and focus more narrowly on going concern uncertainties than the SEC requirements.

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 acknowledge the concerns about disclosing forward-looking information. However, similar forward-looking information is inherent in reporting and disclosing many items in the financial statements including impairment evaluations, deferred tax asset valuation allowances, fair value measurements, unasserted claim assessments, and other items. Because these judgments are recurring in financial reporting, we do not foresee disclosure limitations.

For the reasons indicated in the cover letter, we do not support a higher disclosure threshold. We do not believe a higher disclosure threshold would meaningfully address the challenges of forward-looking information in the financial statement disclosures. A higher threshold would also reduce the benefits to the users of the financial statements.

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

The judgments made in a going concern assessment make it challenging to audit. However, with the changes and additional guidance we have suggested, those challenges should not be significantly different than the challenges that exist under the current audit requirements. We believe we can address those challenges.

If the ASU is issued as proposed, revisions to the auditing standards would be needed to align with the accounting standards. However, neither the PCAOB nor the Auditing Standards Board of the AICPA has provided context regarding potential revisions to the going concern auditing

standards, and it is unclear what impact (if any) such changes would have on the auditor's use of an explanatory paragraph discussing going concern. We also believe the need for guidance regarding appropriate audit evidence is integral for the auditor to appropriately assess management's going concern assertions, and we encourage the PCAOB and Auditing Standards Board to take this into consideration as they evaluate potential revisions to the going concern auditing standards.

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

We believe the expected benefits of the proposed amendments outweigh the incremental costs.

Disclosure Threshold

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?

For the reasons indicated in our cover letter, we believe the initial disclosure thresholds should be modified from "more likely than not" for months 1-12 and "known or probable" for months 13-24 to "reasonably likely" for the entire 24-month assessment period. See our response to Question 16 for further discussion on the language "known or probable."

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?

While we do believe there are differences in the breadth and complexity of assessing probability in the context of transactions versus the overall state of an entity when assessing substantial doubt, we do not believe those differences suggest a probability model for substantial doubt is inappropriate. While diversity may exist on how much uncertainty creates "substantial doubt," we believe the current overall approach emphasizes making a judgment on the likelihood (or probability) of an entity being able to meet its obligations over the assessment period.

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

We believe the proposed amendments contemplate qualitative considerations. However, for reasons indicated in our cover letter, we believe using a "reasonably likely" range of possibility for the initial disclosure threshold more appropriately acknowledges the inherent complexity and subjectivity of going concern assessments. Further, as also discussed in our cover letter, additional guidance is needed on when and how management should consider its mitigation plans.

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?

While we agree with the definition of outside the ordinary course of business in paragraph 205-40-50-5 and the entity-specific determination described in 205-40-50-6, for reasons indicated in our cover letter, we believe additional guidance is needed on when and how management should consider its mitigation plans. We believe the guidance should emphasize that in order for management's plan to "likely" be successful, the significant elements of the plan should be under sufficient management control.

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

We do not believe the needs of users of financial statements of SEC filers and non-SEC filers are sufficiently different to support separate disclosure thresholds. Further, for reasons indicated in our cover letter and our response to Question 18, we also believe that both SEC filers and non-SEC filers should assess whether there is substantial doubt about the entity continuing as a going concern.

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?

For reasons indicated in our cover letter, we believe a single 24-month initial disclosure assessment period using a "reasonably likely" disclosure threshold would be more understandable and less complex to apply. We support the "probable" threshold for evaluating whether there is substantial doubt about an entity's ability to continue as a going concern.

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 agree the distinction between in and outside the ordinary course of business is relevant to determining if and when an entity needs to make disclosures. We believe users are interested in the "gross risk" (the risk before consideration of management's plans) and "net risk" (the risk remaining after consideration of management's plans). However, for reasons indicated in our cover letter, we believe additional implementation guidance is needed on when and how management should consider its mitigation plans, including when plans are in or outside the ordinary course of business and how to evaluate whether plans are "likely" of being successful. We believe the guidance should emphasize that in order for management's plan to "likely" be successful, the significant elements of the plan should be under sufficient management control.

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?

While we agree with the definition of outside the ordinary course of business in paragraph 205-40-50-5 and the entity-specific determination described in paragraph 205-40-50-6, for reasons indicated in our cover letter, we believe additional guidance is needed to promote more consistent application.

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 generally agree with the nature and extent of disclosures as outlined in paragraph 205-40-50-7 but believe the required disclosures need to include (or need to specifically reference where such disclosure appears elsewhere) the potential impact of management's plans on other information reported in the financial statements (e.g., reclassifying assets from held for use to held for sale or held-to-maturity to available for sale or trading, shortening depreciable lives, etc.).

Substantial Doubt Determination

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 believe the reference to "known or probable" should be revised to "probable." Use of the term "known" suggests that substantial doubt disclosures may not be necessary until the entity is certain that it will be unable to meet its obligations. We believe this conclusion is inconsistent with the Board's intent to improve the timeliness of footnote disclosures about going concern uncertainties. Further, we believe "known" is unnecessary because any "known" condition is also "probable."

We believe the proposed 24-month assessment period will improve the timeliness and usefulness of disclosures. However, as discussed in our cover letter, we believe additional guidance is needed on when and how management should consider its mitigation plans.

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 believe that both SEC filers and non-SEC filers (see our response to Question 18) should evaluate and disclose when there is substantial doubt about the entity's ability to continue as a going concern.

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 disagree with the Board's decision to exclude non-SEC filers from the substantial doubt assessment and disclosure. We agree with the Board's view in BC38 that a decision to exclude non-SEC filers from performing a substantial doubt assessment should be primarily based on the needs of users of the financial statements. While we agree the proposed non-SEC filer

disclosures do provide relevant information, we do not believe they provide "all relevant information related to uncertainties about an entity's potential inability to meet its obligations," as BC38 notes. We think the incremental substantial doubt assessment is relevant to users of financial statements of both SEC filers and non-SEC filers. Furthermore, we believe the concern of management bias in making substantial doubt judgments is inconsistent with other significant judgments reflected in the financial statements and related disclosures. Concerns about management bias are not a valid reason to exclude non-SEC filers companies from the requirement to evaluate whether there is substantial doubt about its ability to continue as a going concern. Users would benefit from information about management's analysis and judgments.

If the final standard does exclude non-SEC filers from the substantial doubt determination and disclosure, we suggest that "SEC filer" be clearly limited to only those entities subject to the requirement for their audit to include an evaluation of whether there is substantial doubt under Section 10A of the Securities Exchange Act of 1934. Further, we believe the Board needs to clearly distinguish this definition from other similar definitions (e.g., public business entity, public entity, publicly traded entity).

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?

We do not believe the proposed substantial doubt definition most closely approximates the upper end of the range in the present interpretation by auditors, but our views are limited to our experience in making such judgments. Accordingly, if the auditing standards were revised to define substantial doubt as a "probable" likelihood that the entity will not meet its obligations, we do not believe there would be a decrease in audit opinions with an explanatory paragraph. As proposed, we believe there would likely be an increase of explanatory paragraphs resulting from extending the current 12-month assessment period to 24 months.