SENSIBA SAN FILIPPO

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

2013-300
Comment Letter No. 32

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Technical Director, File Reference No. 2013-300
Financial Accounting Standards Board
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Sent via e-mail to director@fasb.org

Sensiba San Filippo LLP is pleased to have the opportunity to respond to the FASB's Invitation to Comment on Proposed Accounting Standards Update: Presentation of Financial Statements (Topic 205), Disclosure of Uncertainties about an Entity's Going Concern Presumption issued June 26, 2013.

Below is our response to the questions in your exposure draft.

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?

Response: *Yes, Sensiba San Filippo LLP ("SSF") agrees with this definition.*

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?

Response: *SSF concurs with providing guidance in U.S. GAAP related to management's responsibilities for providing disclosures specific to going concern uncertainties.*

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?

Response: *SSF serves primarily private entities and non-public filers and as such our response will focus on the private entities in its responses throughout. We believe the proposed amendments would reduce diversity in disclosure about going concern uncertainties as well as reinforce to management that such disclosure is their responsibility. Management is required to use judgment and estimates in the preparation of financial statements and as such there is no reason to believe that reasonable estimates and judgments contemplated as part of disclosing going concern uncertainties are any different.*

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.

Response: *The risk of management bias exists in all facets of financial statement preparation. There is nothing inherently different about disclosures related to going concern risk vis-à-vis other elements of financial statement preparation.*

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?

Response: *We concur that this assessment should be made by management at each reporting period. However to reiterate, we serve primarily non-public filers, and thus the consideration of interim reporting is not a significant issue in our practice.*

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?

Response: *SSF has no additional comments on SEC registrant requirements.*

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.

Response: *SSF has no additional comments on SEC registrant 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?

Response: *Forward looking information is always more difficult to prepare and inherently requires significant judgment as the basis for estimates. In our practice, we do not anticipate any specific legal liability to change significantly for management or the auditors based on this pronouncement, however.*

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

Response: *Consistency between audit standards and disclosure standards, or the lack thereof, would be the most significant challenge that we foresee.*

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

Response: *Yes.*

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?

Response: *Yes, we believe the threshold is reasonable. The auditing standard uses the term "Substantial doubt" which is a higher threshold. The difference is reasonable and allows for disclosures consistent with addressing going concern uncertainties and liquidity risks at a lower level.*

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?

Response: *Yes, however these are judgments that management will have to work through. Implementation guidance should be provided as part of the final pronouncement*

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

Response: *Yes. Qualitative factors are inherently judgmental and the risks related to judgments are already embodied in financial statement preparation by management. SSF concurs that the guidance related to such qualitative factors are sufficient in the proposed guidance in the framework that inherently exists in GAAP*

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?

Response: *We believe the guidance is reasonable. However, with respect to the 24 month requirement for "known or probable" going concern uncertainties is problematic for many non-SEC registrants. See response below under question 12.*

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

Response: *Our responses are focused solely on the need of non-SEC registrants.*

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?

Response: *Speaking to the needs of much of our client base (non-SEC registrants and smaller businesses) we believe that the requirements of this amendment could widen the scope of going concern considerations significantly and provide little additional value to the users of the financial statements. The 24 month period seems to be a bit arbitrary, and a two year time horizon greatly increases the burden on the preparers of the financial statements to predict the future. Additionally this is inconsistent with the time horizons considered in the auditing standards which we believe are reasonable. We believe that such an amendment would force going concern disclosures to become much more prevalent and result in disclosures that are included when they may not be warranted in the interests of "conservatism".*

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.

Response: *We believe that the definition of "Ordinary Course of Business" as noted in 205-40-50-5 is limiting as noted below in question 14. Otherwise we do not have additional comments on this question.*

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?

Response: *We believe that the language in 205-40-50-5 and 6 is restrictive and could lead to over conservative determinations of "ordinary course of business" and diluting the benefit of the disclosures. When coupled with the long time horizon of 24 months we believe that the interpretation for many companies with limited visibility into the future as well as not having the ability to prepare sufficient auditable prospective financial information could be dragged into additional disclosures that provide limited benefit to the reader of the financial statements.*

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?

Response: *Yes we believe the disclosures outlined in 205-40-50-7 are reasonable.*

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?

Response: *We concur with the concept of evaluating going concern uncertainties and triggering different or expanded disclosures when such uncertainties are "more likely than not" versus "known or probable". However, we believe that the time horizon of 24 months related specifically to the "known or probable" is a bright-line that is problematic. As this is inherently a judgment call we believe that there is no added value in specifying an additional time period for consideration.*

We would support language such as is embodied in the auditing standards of a reasonable period of time and implementation guidance could include language to help management interpret that with verbiage such as 12 months from the balance sheet date and a reasonable period thereafter.

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?

Response: *Our responses are focused solely on the need of non-SEC registrants.*

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.

Response: *We do not believe there would be additional benefit to adding this requirement to 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?

Response: *SSF concurs that clarity and alignment of "Substantial Doubt" definitions in GAAP and auditing standards is beneficial and would lead to a lower incidence of emphasis of matter opinions which in and of itself would be beneficial. The consistency and improvement of management disclosures are also believed to be improved in our opinion as well if the definitions are improved.*

As discussed throughout our responses we believe the time horizon of 24 months is problematic for implementation, especially for smaller non-SEC filers, however and we believe that such a long time horizon could actually lead to an increase of incidence of emphasis of matter opinions. We believe the 24 month period to be a bit arbitrary, too long and too much of a "bright-line" for an issue that is by its very nature a matter of qualitative judgment. In our opinion the concept of "reasonable period of time" should be incorporated in U.S. GAAP with consideration of implementation guidance to provide management examples of this definition to use in their consideration and final determination of what a reasonable period of time is specific to their entity.

Thank you for your consideration of our comments. You may contact Jeff Stark at 408-286-7780 or jstark@ssfllp.com for any clarification or questions you may have regarding the above comments.

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