

September 24, 2013

SENT VIA EMAIL

Ms. Susan M. Cospers, Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

File Reference: 2013-300, *Presentation of Financial Statements (Topic 205), Disclosure of Uncertainties about an Entity's Going Concern Presumption*

Dear Ms. Cospers:

Moss Adams LLP appreciates the opportunity to comment on the proposed Accounting Standards Update, *Presentation of Financial Statements (Topic 205), Disclosure of Uncertainties about an Entity's Going Concern Presumption* (the "proposed ASU").

Moss Adams LLP is the largest accounting and consulting firm headquartered in the Western United States, with a staff of over 2,000, including more than 260 partners. Founded in 1913, the firm serves public and private middle-market businesses, not-for-profit, and governmental organizations.

We appreciate the Financial Accounting Standards Board's (the Board) efforts to address user concerns and diversity in practice relating to evaluating and disclosing uncertainties related to an entity's ability to continue as a going concern. We are supportive of adding these topics to U.S. generally accepted accounting principles. However, as discussed below, we are concerned that a number of the Board's proposed changes are not operational. To improve the operability of the guidance and to ensure consistency with auditing standards, we encourage the Board to work with both private company and public company audit standard setters to facilitate a comprehensive financial reporting environment for management and auditors to communicate with users in this important area.

In addition, we believe the following issues merit additional consideration by the Board:

Management Assessment by Private Companies: The Board has concluded that it is not relevant for the management of a private company to make an assessment of whether substantial doubt exists about an entity's ability to continue as a going concern. The primary rationale cited by the Board is that private company auditors lack the same legal requirement as public company auditors. We disagree with this conclusion. Current audit standards for both private and public companies require auditors to make an assessment with respect to a company's ability to continue as a going concern. It is our view that management should have the primary responsibility to make this assessment, regardless of whether it is a private or public company.

MOSS ADAMS_{LLP}

Ms. Susan M. Cospers, Technical Director
Financial Accounting Standards Board
September 24, 2013
Page 2 of 2

This would retain the traditional responsibility of management to communicate information to investors and other users through a company's financial statements.

Threshold Levels in the Proposed ASU: As further discussed in our responses to the proposal's specific questions, we have a number of concerns about the threshold levels established by the Board in the proposal. In both the assessment of whether disclosure of going concern uncertainties is required and the substantial doubt assessment, the proposed thresholds appear to be too high to accomplish the stated objectives of this project. The thresholds also appear to have an unnecessary level of complexity, requiring a determination of events within and outside the ordinary course of business, and treating these events differently depending on the assessment being performed. We also believe the Board's proposed definition of "within the ordinary course of business" is too narrow for smaller public and private companies. Finally, the proposed guidance establishes a probability-based threshold to determine if disclosures are required, which implies a level of precision that is not operable in this area. The Board should look to reduce complexity by broadening the events and conditions that are considered to be within the ordinary course of business. The Board should also consider additional guidance on how to consider and weigh the achievability and impact of management's plan in determining both whether disclosures are appropriate and if there is substantial doubt about the entity's ability to continue as a going concern. The Board should also modify the proposed more-likely-than-not threshold to avoid an overly quantitative analysis (e.g. 50.0%) for an inherently qualitative assessment.

Our responses and related comments to the specific questions included within the Exposure Draft are contained in Attachment 1 to this letter.

Moss Adams appreciates the opportunity to comment on the proposed ASU. We would be pleased to discuss our comments with the Board members or the FASB staff at your convenience. If you would like to discuss our comments or have any questions, please contact John Donohue in our Professional Practice Group at 206-302-6800.

Yours truly,



Enclosure



Presentation of Financial Statements (Topic 205)
2013-300

ATTACHMENT 1

The following are responses to the questions in the proposed ASU:

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?

We generally agree with the proposed definition of the going concern presumption. As further discussed below, we believe the Board's definition of the "ordinary course of business" is too narrow, particularly for smaller public and private companies.

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?

Yes, management should be responsible for assessing and providing footnote disclosures about going concern uncertainties, similar to the responsibility management takes for all other disclosures and assertions within the financial statements. With respect to whether U.S. GAAP should provide guidance to SEC registrants and other entities, we believe that U.S. GAAP should provide guidance about when and how management should disclose this information, similar to the existing requirements to disclose other material risks and uncertainties in a company's financial statement.

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?

The proposed amendments have the potential to reduce diversity and provide relevant information to financial statement users; however, other parts of the proposal, as well as other external factors, will greatly affect whether this will occur. For example, if the proposal's requirement to only consider events in a company's ordinary course of business results in a company frequently making the required disclosures, the disclosures may become boilerplate and not provide users with relevant information. Further, due to a lack of objective evidence and legal liability concerns, management and their attorneys frequently limit the forward-looking information included in the financial statements, which may reduce the effectiveness of the Board's proposed disclosure principles. Under the proposed guidance, the most relevant information communicated to users may be the existence of any going concern uncertainty disclosures, as that would signal that the more likely than not threshold has been reached. The proposed guidance would also provide more structure to the disclosure for public companies, as the SEC's



Presentation of Financial Statements (Topic 205)
2013-300

disclosure requirements currently lead to inconsistent disclosure among entities. The Board should solicit feedback from companies, including their attorneys, to fully understand how they would implement the disclosure requirements.

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 acknowledge that management may not have the objectivity to assess and provide disclosures of uncertainties about the entity's ability to continue as a going concern. However, there are numerous assertions in the financial statements where management may have incentives and pressures that potentially impair their ability to make objective assertions within the financial statements. This should not preclude management from making all of the assessments and disclosures necessary to produce U.S. GAAP financial statements, including an assessment of an entity's ability to continue as a going concern.

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?

Similar to certain asset impairment assessments, the Board should consider making the going concern uncertainty assessment an annual assessment, with either a "triggering event" or a negative assurance assessment evaluation required for interim periods. The proposed ASU will require a reasonably significant amount of work to implement, and quarterly assessments would appear to be unnecessarily costly in periods with limited changes to an entity. We agree that the financial statement disclosures should be updated with relevant information as new information becomes available.

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?

While the Board's disclosures may result in a narrower focus for the financial statement disclosures relative to the SEC disclosure requirements, the primary incremental benefit to the disclosures is the communicative value of having a specific threshold trigger the going concern uncertainty disclosure, and the extra attention that users would presumably pay to the financial statement disclosures given the



Presentation of Financial Statements (Topic 205)
2013-300

triggering threshold. Further, our observation is that many of the existing SEC disclosure requirements are either spread throughout a document or apply in all circumstances, making it difficult for users to extract relevant information from the disclosures. We are concerned that absent specific disclosure requirements, management may produce generic or boilerplate disclosure, similar to what is commonly perceived to be disclosed in response to current SEC 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.

See our other responses in this letter.

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?

While we do not have a basis to comment on matters of legal liability, we do anticipate that companies will be resistant to disclosing forward-looking information in the financial statements. The resulting disclosures may be limited to information that is objectively verifiable, as the Private Securities Litigation Reform Act protections for forward-looking information are not available to financial statement disclosures as they are to the management discussion and analysis section of SEC filings. We anticipate that these concerns would exist regardless of the threshold established by the Board.

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

The full extent of challenges to be faced by auditors if the proposed amendments are adopted is not known. The proposed amendments include going concern considerations and thresholds that are inconsistent with both U.S. generally accepted auditing standards and Public Company Accounting Oversight Board (PCAOB) standards. Without changes to auditing standards to conform to the amendments, auditors and preparers will face significant challenges. While we understand the PCAOB and the U.S. Auditing Standards Board both have going concern projects on their agendas, a simultaneous change to auditing and accounting standards would be critical.

Even with changes to auditing standards, we believe the proposed amendments will create challenges for auditors. We have identified several of these challenges in our cover letter and in our responses to the other questions in the proposed ASU.



Presentation of Financial Statements (Topic 205)
2013-300

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

For the annual assessment, the benefits of the proposed guidance appear to outweigh the costs. With respect to the interim assessment, we are concerned the costs of the requirements do not outweigh the benefits. For the unaudited quarterly assessments of SEC filers, the substantial doubt assessment will result in incremental work to both prepare and review the analysis, with limited benefit to users in periods where substantial doubt is not determined to exist. More generally, if the disclosure requirements ultimately result in generic or boilerplate disclosures, there may be limited benefit relative to the cost.

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?**
- 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?**
- c. **Do the proposed amendments adequately contemplate qualitative considerations? Why or why not?**
- 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?**
- e. **Are your views the same for SEC registrants and non-SEC registrants?**

As discussed in our cover letter, we are concerned about the thresholds for disclosure in the proposed ASU. With respect to the more-likely-than-not threshold, we expect challenges in practice to determine how likely an event or series of events is to occur and translating the cumulative impact of the events to determine if it is 50% or more likely to occur. Differentiating between whether events and conditions result in a 49.9% or 50.1% likelihood that an entity is unable to meet its obligations without taking actions outside the ordinary course of business attributes a far greater level of precision to an analysis that is inherently imprecise and subjective in nature. While we acknowledge that the Board addresses some of these concerns in its basis for conclusion, the comments in the basis do not alleviate our concerns with the proposed thresholds.

In considering the proposed language in the opening of paragraph 205-40-50-4, we believe it should be more definitive; assessing the *potential* effect on the *potential* [emphasis added] inability to meet its obligations does not provide a specific enough principle in the evaluation of events and conditions.

With respect to SEC registrants, we have included our comments in the response to Question 16, below.



Presentation of Financial Statements (Topic 205)
2013-300

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?

We agree with the proposed ASU's approach of establishing a higher threshold for events beyond one year, as it would be prohibitively challenging to determine the ability of a company to meet its obligations for periods beyond 12 months at too low of a threshold. As noted elsewhere in our letter, we also believe it is challenging to distinguish events in the ordinary course of business from those outside the ordinary course of business, particularly 24 months from the balance sheet date.

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.

In our view, the primary interest of users of financial statements in going concern disclosures will be the presence of additional disclosure when a threshold regarding the entity's ability to continue as a going concern has been crossed, and the resulting impact, if any, on a company's operations going forward in responding to the going concern uncertainty. From that perspective, distinguishing whether a plan is within or outside the ordinary course of business is less relevant to the disclosure and the disclosure threshold. Further, the exclusion of management's plans outside of the ordinary course of business from the disclosure threshold, coupled with the narrow definition discussed in our response to Question 14, may harm users by providing disclosures in situations where it is not actually relevant.

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?

The definition proposed by the Board, when coupled with the implementation guidance, will be difficult to apply in practice and takes an unnecessarily narrow view of the actions taken by management in the ordinary course of business, particularly for smaller public companies and private companies. The example in paragraph 205-40-55-5 to 55-7 of the proposed ASU is typical of the financing frequency and significance for many companies; requiring "going concern" disclosures in this situation would detract from the meaningfulness of the disclosures in circumstances where there is a more acute concern about an entity's potential inability to meet its obligations. The Board should consider modifying the definition or the implementation guidance to acknowledge that certain events, such as financing transactions, may not occur annually yet still occur with sufficient frequency to be considered within the ordinary course of business and which are adequately disclosed in other parts of the financial statements.



Presentation of Financial Statements (Topic 205)
2013-300

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 disclosure principles outlined in the proposed standard, though the Board should consider whether requiring additional specificity in the disclosure guidance would be appropriate. For example, when disclosing management's plans to address an entity's potential inability to meet its obligations, it would be appropriate for the disclosure to address whether the plans are considered within the ordinary course of business, whether the plans are likely to both be effective and mitigate the concern, and the ability of management to successfully achieve its plans.

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?

By introducing two different thresholds, known and probable, in the same definition, the proposed guidance will likely result in diversity in the application on the definition. It is unclear why two separate thresholds are necessary – does the Board intend for a “probable” determination to trigger the substantial doubt conclusion? If so, why does the proposed guidance include “known”? Also, the Board observed during its redeliberations that there exists today a disconnect between users and auditors as to the current threshold for the auditor including a going concern modification; the use of two thresholds within the definition would appear unlikely to resolve this issue. Finally, the proposed definition of “substantial doubt” would appear to delay reaching the conclusion that substantial doubt exists compared to current practice, as auditors generally modify their report to disclose substantial doubt about an entity's ability to continue as a going concern at a lower threshold than that proposed by the Board.

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 agree with the Board's proposal to require management to make an assessment about the going concern premise of the entity, and believe the requirement should be expanded to private companies. Generally, we believe that management should have primary responsibility for all assertions and conclusions within the financial statements, and that the auditor should not be the source of new information that is communicated to investors, such as whether substantial doubt exists about an entity's ability to continue as a going concern. Our understanding is that users of financial statements view the going concern modification as being informative, and a part of the total package of information communicated by the financial statements. Accordingly, management should have primary responsibility for the conclusion and communication of this information.



Presentation of Financial Statements (Topic 205)
2013-300

The Board should work with the auditing standard setters and the Private Company Council to consider this issue, as there are challenges in extending the requirement to private companies. The challenges include the ability of management to make an unbiased assessment of whether substantial doubt exists and the expense of the assessment for private companies. These challenges, however, do not change our view that the going concern assessment should apply to private companies.

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.

See our response to Question 17.

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 agree that the Board's proposed definition approximates, and may exceed, the upper end of the range in the present interpretation of substantial doubt by auditors. It is unclear to us if the Board has received concurrence on this definition from both private and public company audit standard setters, as they would be required to adopt the proposed definition to have an impact on the auditors' report. If the definition were to be adopted, it is not practicable to estimate the specific number or percentage reduction of substantial doubt modifications that would be issued under the proposed guidance, but we expect the impact to be significant.

In our view, if the Board is unclear about whether fewer going concern modifications is an improvement to current practice, then it has substantial additional outreach to conduct with stakeholders. Before finalizing this project, the Board should have a clear understanding of both what information would satisfy user needs, and what information management can prepare and the auditor can audit in a cost beneficial manner.