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Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Via Email to director@fasb.org

Grant Thornton LLP
175 W Jackson Boulevard, 20th Floor
Chicago, IL 60604-2687
T 312.856.0200
F 312.565.4719
www.GrantThornton.com

Re: File Reference No. 2013-300

Dear Ms. Cosper:

Grant Thornton LLP appreciates the opportunity to comment on proposed Accounting Standards Update (ASU), *Presentation of Financial Statements (Topic 205), Disclosure of Uncertainties about an Entity's Going Concern Presumption*. We support the efforts of the Financial Accounting Standards Board to provide guidance in U.S. GAAP about management's responsibilities in evaluating and disclosing going concern uncertainties.

While we agree with most aspects of the proposed guidance, we believe that non-SEC filers, as well as SEC filers, should be required to evaluate and disclose when there is substantial doubt about an entity's ability to continue as a going concern. Additionally, as discussed in our following comments, we believe that the proposed guidance could be enhanced by clarifying certain concepts and definitions and providing further illustrations in some areas.

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?

As drafted, we believe that the standard confuses the concept of the basis of accounting with the issue of disclosure of future uncertainties. The basis of accounting is determined on the basis of specific criteria that are different from those that trigger the need for disclosures related to future uncertainties.

The conclusion on the basis of accounting applies to the financial statements being prepared for the immediate past period and, if a change in basis of accounting is triggered, to the financial statements for the immediate future period.

The uncertainties that may trigger the need for disclosures about future uncertainties generally do not cause a change in basis of accounting. Thus, combining the two issues (basis of accounting and need for disclosures about future periods) under the term “going concern presumption” confuses more than it explains the intended concept to preparers and users of the financial statements. We believe that separation of these concepts with differently defined terms would greatly assist users, preparers and auditors.

We have included suggested changes to the proposed amendments to the Master Glossary and Subtopic 205-40 in Appendix A to our letter.

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 believe as an overarching principle that financial statements are the responsibility of management. Accordingly, we agree the responsibility for assessing and providing footnote disclosures about going concern uncertainties should lie with management. Similar to the previous incorporation of subsequent event considerations and disclosures within the Codification, we believe that guidance about the timing, nature, and extent of footnote disclosures about going concern uncertainties should be included in U.S. GAAP.

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 that the proposed amendments will generally reduce diversity as compared to current practice, but that some diversity will continue to exist due to the considerable judgments required to apply the amendments.

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 do not believe the going concern assessment is significantly different than other critical judgments or estimates that management must make in the preparation of financial statements. For instance, judgments related to tax valuation allowances and impairment of goodwill and long-lived assets include many elements, including the consideration of forward looking

information, which will be evaluated by management in going concern assessments. In making critical judgments and estimates, management has the responsibility to make assertions and the auditors have the responsibility to assess those assertions in the context of the total financial statements—and that assessment includes consideration of management bias.

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?

As we believe the proposed disclosures provide financial statement users with extremely useful information, we agree that such assessment should be performed on a quarterly basis.

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?

We agree that there is overlap between certain SEC disclosure requirements and the proposed footnote disclosures. However, the proposed footnote disclosures have a narrower focus than the broader SEC requirements and we believe that financial statement users would benefit from the disclosure in one place of the causes, effects, and future plans related to the entity’s potential inability to meet its obligations. We believe that there are advantages to a financial statement user being able to find a complete narrative in a single location and that the proper location of that disclosure is in the footnotes to the financial statements. In our view, any concerns about redundancy are outweighed by the accessibility of the disclosures.

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.

We view the proposed footnote disclosures as specific to going concern uncertainties and having a narrow focus on those uncertainties that relate to an entity’s ability to continue to meet its obligations in the ordinary course of business. We believe that the scope of other SEC requirements for areas such as MD&A and risk factors is broader and that SEC filers will use those areas outside the financial statements to provide additional context regarding the causes and effects of the uncertainties.

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?

As we addressed in Question 4, there are many accounting areas today that require the use of forward looking information. We do not believe the considerations of that information to be different for going concern uncertainties. Also, as the proposed disclosure requirements are not significantly different than those currently made under the auditing standards model, we do not believe the proposed disclosures would cause any significant change in legal liability.

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

We believe, as discussed elsewhere, that the lengthening of the going concern assessment period from one to two years from the financial statement date will increase audit difficulties. However, the shift of the going concern and substantial doubt assessments to management, along with the additional clarity related to the disclosure threshold and the definition of substantial doubt should offset that challenge.

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

We believe that the benefits to financial statement users justify the costs of applying the amendments. We do not believe the incremental costs will be onerous.

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?

We believe that the disclosure threshold is appropriate. We understand the desire of financial statement users to receive "advance warning" disclosures concerning going concern issues, and believe that the more-likely-than not threshold for the first 12 months within the financial statement date and a known or probable threshold for the next 12 months will alleviate that concern. As the more-likely-than not threshold is used in other areas of the accounting literature, we believe users and auditors will be able to apply that concept. We are concerned that a threshold lower than more-likely-than not would cause disclosure of going concern uncertainties that may not be warranted and could cause confusion by financial statement users. However, we find the inclusion of the term "known" in assessing the later 12-month period confusing. Known events are a higher threshold than probable and therefore a subset of events that are probable. To include "known" in conjunction with "probable" seems redundant.

More importantly, the inclusion of “known” could introduce an unintended consequence whereby some might conclude that known and probable are interchangeable, resulting in ramifications for other guidance that rely on “probable” in making various assessments.

We believe that paragraph 205-40-50-4 and the implementation guidance are useful, although as discussed elsewhere in this letter, we believe that further guidance would be helpful in making judgments regarding whether a management plan is in the ordinary course of business.

We believe the disclosure threshold should be the same for SEC registrants and non-registrants, as we believe financial statement users of private companies have similar needs for this information.

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 that a 24-month assessment period after the financial statement date is appropriate and further agree that that a higher disclosure threshold is appropriate for the first 12 months as opposed to the second 12 months due to management’s decreased ability to predict future events the further an entity gets from the financial statement 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.

We believe it is appropriate for management to use actions in and outside the ordinary course of business as a distinguishing factor when evaluating whether going concern disclosures are needed. A description of actions that management is considering that it would not otherwise take under normal conditions would provide useful information to financial statement users to evaluate management’s plans, even if management believes those actions will mitigate the going concern exposure. By including this as part of the disclosure threshold, we believe that the current diversity related to the auditing literature requirement to consider disclosures even if management’s plans eliminate substantial doubt would be reduced considerably.

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 *management’s plans that are outside the ordinary course of business*, we think the guidance would be enhanced if it included examples that would illustrate how management’s intent can impact whether a plan should be considered in the ordinary course of business. For example, asset sales are common for many entities in certain industries such as real estate and oil and gas and could be considered in the ordinary course of business. However, we believe that certain planned asset sales could be outside of the ordinary course of business if management’s intent is to alleviate conditions or events that could lead to an entity’s ability to meet its obligations.

Additionally, we believe the illustration in ASC 205-40-55-6 should be clarified. The illustration seems to imply that the mere size of debt that would need to be refinanced has some impact on whether the refinancing plan is within the ordinary course of business. Many entities refinance debt infrequently but refinancing the debt would be within the ordinary course of business unless it would be more-likely-than not that the entity could not refinance the debt with similar terms and conditions. For instance if the entity would be subject to a higher credit spread, less capacity, more stringent covenants, or more onerous payment terms the refinancing would be outside the ordinary course of business.

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 agree with the nature and extent of the disclosures outlined in paragraph 205-40-50-3 and do not believe that any other disclosure principles should be included.

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 agree with a likelihood-based definition for substantial doubt. We believe that the definition should reduce (but not eliminate) diversity in practice by narrowing the range currently inferred in interpreting the meaning of substantial doubt under the auditing literature.

While we have some concerns about the 24-month consideration period, those concerns are largely offset by the use of the probable likelihood that must be met before substantial doubt disclosures are required. That is, the 24-month period does not seem overly long provided the assessment is at a probable level. We think that assessment level also compensates for many of the audit challenges related to expanding the consideration period beyond the current one year period.

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?

Similar to our views on going concern disclosures, we believe that, as part of management's responsibility for an entity's financial statements, it should be required to evaluate and determine whether there is substantial doubt about the entity's ability to continue as a going concern and, if there is substantial doubt, disclose that determination in the footnotes.

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 do not agree that a non-SEC filer should be exempted from the requirements to evaluate and disclose substantial doubt about its ability to continue as a going concern. Since auditors of non-SEC filers are required to consider substantial doubt the same as those of SEC filers, we believe that management should have the responsibility to make a substantial doubt assessment and to disclose, if necessary, that condition in the financial statements. We do not see how the difficulties of making a substantial doubt assessment are significantly different for management of a private entity.

Additionally, we are concerned that financial statement users will be confused by the difference in disclosures between public and private companies. Current auditing guidance has driven these disclosures without consideration as to whether the entity is or is not an SEC filer. We believe that differential requirements will result in a significant expectation gap that will not be fully understood by users.

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 believe that the definition of substantial doubt in the proposed amendments does align with the upper end of the present interpretation of that term by auditors. Currently, we believe the lower end of the range for the requirement of going concern disclosures is somewhere between more-likely-than not and probable. Although we believe that a change in the auditing standards to utilize a similar definition to that in the proposed amendments would result in fewer audit opinions with an emphasis-of-matter paragraph discussing going concern uncertainties, we do not know how that decrease can be estimated. We believe that any evaluation of the impact of reduced substantial doubt determinations should be considered in conjunction with the numerical increase in and timeliness of going concern disclosures—in total, we believe that financial reporting will be improved by the proposed substantial doubt definition in conjunction with the going concern disclosure threshold.

We would be pleased to discuss our comments with you. If you have any questions, please contact L. Charles Evans, Partner, Accounting Principles Group at 832-476-3614 or charles.evans@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP

Appendix A

Our suggested changes to the proposed Codification amendments are marked.

3. Add the following new Master Glossary terms, with a link to transition paragraph 205-40-65-1, as follows:

Going Concern Presumption

The inherent presumption in preparing financial statements under U.S. generally accepted accounting principles that an entity will be able to continue as a going concern; that is, the 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~~ not liquidate.

Continue to Operate Normally

An entity continues to operate normally when it is able to realize its assets and/or meet its obligations in the ordinary course of business.

Substantial Doubt

Substantial doubt about an entity's ability to ~~continue as a going concern~~ continue to operate normally (going concern presumption) exists when information about existing conditions and events, after considering the mitigating effect of all 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 realize its assets and/or meet its obligations as they become due within 24 months after the financial statement date. The term *probable* is used consistently with its use in Topic 450 on contingencies.

Overview and Background

205-40-05-1 Financial statements are prepared under the inherent presumption that a reporting entity will be able to continue as a going concern; that is, the 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~~ not liquidate (the **going concern presumption**).

205-40-05-2 An entity shall prepare financial statements under the going concern presumption until its **liquidation** is imminent in accordance with Subtopic 205-30 on the liquidation basis of accounting. When liquidation is imminent, an entity shall start applying the liquidation basis of accounting. ~~Even before~~ Before an entity's liquidation is imminent, there may be uncertainties about whether an entity's ~~going concern presumption will~~ continue to operate normally. This Subtopic requires an entity to evaluate those uncertainties at each annual and interim reporting period by assessing the entity's potential inability to meet its obligations as they become due within 24 months after the financial statement date, and requires disclosures about those uncertainties, if certain conditions are met.