

# ***Proposed Accounting Standards Update, Presentation of Financial Statements (Topic 205): Disclosures of Uncertainties about an Entity's Going Concern Presumption***

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## **Respondent information**

### **Type of entity or individual:**

Industry Organization

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## **Questions and responses**

1. 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 support the proposed definition of an entity's going concern presumption.

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2. 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?

Management should be responsible for assessing and providing adequate footnote disclosure about any going concern uncertainties that may exist. Management, as the day-to-day overseer of an entity's operations, has the best perspective from which to conclude on the entity's ability to continue realizing its assets and meeting its obligations. We agree that guidance should be provided in U.S. GAAP for management (of both SEC registrants and other entities) to follow regarding the timing, nature, and extent of disclosure about going concern uncertainties, as such an important disclosure demands specific requirements. Further, we feel that having separate disclosure requirements for SEC registrants and non-SEC registrants is not appropriate within the going concern presumption framework. The idea of an entity to be able to realize its assets and meet its obligations is not a concept that should be bifurcated between financial statement users (i.e., shareholders of a public company and those of a private company).

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3. 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 would reduce diversity in the timing, nature, and extent of disclosures regarding going concern uncertainty. We believe that there would be little incremental benefit for SEC registrants, as SEC disclosure requirements already require a broad discussion of liquidity and other risks. However, we do not think that the duplication of disclosure should be a reason to exclude the proposed guidance from U.S. GAAP.

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4. 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 will provide little incremental benefit to investors. Do you believe that an entity's management has the objectivity to assess and provide disclosures of uncertainties about the entity's ability to continue as a going concern? Why or why not? If not, please also explain how this assessment differs from other assessments that management is required to make in the preparation of an entity's financial statements.

We believe that management, in general, has the objectivity to assess and provide the disclosures that would bring light to uncertainties about the entity's ability to continue as a going concern. In fact, we think that management is often the only group capable of a going concern assessment, as it is much more closely involved with the day to day operations of an entity.

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5. 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 with the proposed frequency of assessments.

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6. 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?

See response to Question 3.

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7. 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 response to Question 3.

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8. 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?

An entity which discloses that it may not be able to continue as a going concern will be able to point to the fact that they were required to do so as the ultimate reason the entity was unable to continue as a going concern. The argument may be that creditors, who would have otherwise been willing to extend credit and allow the entity to continue as a going concern, were scared off by the entity's going concern assessment. A higher threshold for disclosures would address some of these concerns.

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

Auditors would face the challenge of auditing qualitative assessments that often times are not backed by anything other than the word of management or e-mail chains.

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10. 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 of applying them.

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11. Question 11A: Is the disclosure threshold appropriate? What are the challenges in assessing the likelihood of an entity's potential inability to meet its obligations for purposes of determining whether disclosures are necessary?

We believe the threshold is appropriate.

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12. Question 11B: 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?

No response.

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13. Question 11C: Do the proposed amendments adequately contemplate qualitative considerations? Why or why not?

We believe the proposed amendments adequately contemplate qualitative considerations.

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14. Question 11D: Do you believe that the guidance in paragraph 205-40-50-4 about information on how an entity should assess the likelihood of its potential inability to meet its obligations and the implementation guidance within the proposed amendments are helpful and appropriate? Why or why not?

We believe the examples included in paragraph 205-40-50-4 are helpful to entities in determining what should be disclosed regarding potential indicators of an inability to continue as a going concern.

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15. Question 11E: Are your views the same for SEC registrants and non-SEC registrants?

Yes.

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16. 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 do not believe it is necessary to distinguish between the different 12-month periods.

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17. 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 the distinction is relevant, as the mitigating effects of plans inside the ordinary course of business may be viewed by financial statement users as more likely to occur, as opposed to plans outside the course of business which may be read as a last-ditch effort by management to stave off bankruptcy.

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18. 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?

We agree with the definition as well as the related implementation guidance.

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19. 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 205-40-50-7. We do not think additional disclosure principles need to be included

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20. 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 likelihood-based definition for substantial doubt as well as the 24-month consideration period. We do not anticipate any challenges with the assessment.

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21. 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 SEC filers as well as non-SEC filers should be required to determine whether there is substantial doubt about the entity's ability to continue as a going concern.

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22. 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 with the Board’s decision. We believe investors in private entities (e.g., noncontrolling interests, private equity groups) would benefit from having an assessment of the entity’s ability to continue as a going concern be included within the financial statements.

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23. 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?

As far as we are aware, neither the PCAOB or the AICPA define, “substantial doubt,” in their respective auditing standards. As such, any finalization of these proposed rules should include a cooperative effort between the Board and auditing standard setters to provide, “bright lines,” in the auditing standards to let auditors know when they will be required to bring attention to going concern matters within audit opinions.

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Update comments. Please provide any additional comments on the proposed Update:

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