



The Association of
Accountants and
Financial Professionals
in Business

September 20, 2013

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

File Reference No. 2013-300

Dear Ms. Cospers:

The Financial Reporting Committee (FRC) and the Small Business Financial and Regulatory Affairs Committee (SBFRC) of the Institute of Management Accountants (IMA) are writing to provide their views to the Financial Accounting Standards Board (FASB) on the Exposure Draft, *Disclosure of Uncertainties about an Entity's Going Concern Presumption*, issued on June 26, 2013 (ED).

The IMA is a global association representing more than 65,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. The SBFRC addresses issues that impact small and medium-sized organizations. On behalf of IMA's members, the SBFRC engages and suggests solutions to standard-setters and regulatory agencies such as the FASB, Securities and Exchange Commission (SEC), International Accounting Standards Board, Small Business Administration, American Bankers Association, Internal Revenue Service and others. Information on both committees can be found at www.imanet.org under the Advocacy section.

We support the objective of the FASB to provide guidance in US GAAP about an entity's ability to continue as a going concern (going concern presumption). However, we believe that the proposed guidance as written is too complex and would not provide users with incrementally valuable information to warrant the additional cost/harm. Additionally, we believe that there should be no distinction between public and private entities. In summary, we recommend that the guidance in US GAAP codify existing practice stemming from the guidance in the auditing literature.

High Hurdle

We agree that an entity's ability to continue as a going concern is fundamental presumption for general purpose financial statements. As such, it is appropriate that US GAAP incorporate guidance on management's evaluation of the going concern presumption and related disclosures.



There must be a very high hurdle to overcome this overriding presumption. We believe that substantial doubt about an entity's ability to continue as a going concern requires very clear evidence of near term liquidation or bankruptcy due to the operational and legal realities discussed below.

As we have noted in many of our comment letters, we are concerned with GAAP covering forward-looking and risk factor-type disclosures and believe that US GAAP (the FASB's purview) should be limited to and focused on historical, factual financial information. For a going concern situation to be fact based, an entity would be in a liquidity crisis at the date of the financial statements rather than contemplating the impact of a potential crisis within 24 months. The Board should not feel obligated to solve the SEC's problem with investors of "too little; too late" through changes in US GAAP. The SEC has forward-looking and risk factor-type disclosure requirements which are covered by safe-harbor provisions that could be revised or more strictly enforced to address investor concerns. Such concerns are better left to disclosures outside of the historical financial statements.

User Input

Our committees include users who are analysts and users providing credit (liquidity), as well as board members and business owners. These users state that the proposed disclosures would not provide any incremental information about entities that are facing the potential inability to meet obligations that users monitoring the entity should not already know. An analyst following an entity should know of uncertainties from deteriorating financial conditions, results and trends. Credit officers and departments should have knowledge of uncertainties from transaction volume and payment history. For public companies, users have MD&A liquidity and trend disclosures, conference calls and analyst meetings as means to obtain such information. As the Board asserts, private company users may have access to management directly.

Even without a worldwide credit crisis, it is our experience that liquidity is fragile for a troubled entity. Our members from financial institutions indicate that based on their knowledge and experience the proposed disclosures may have the untended consequences of cutting off liquidity; dooming the entity. If the Board intended the ED to benefit equity holders (main street users), we fail to see how a potential self-fulfilling prophecy is useful for them.

Complexity and Operational Issues

We do not believe that management's evaluation could be completely free from bias. By nature, the evaluation would be subjective. Management of an entity experiencing liquidity issues is fighting for survival and, generally, pulls all levers to survive. There is always a plan B. In such a fluid situation, it is difficult and costly to maintain sufficient contemporaneous auditable evidence.

We agree with the dissenting view that the proposed ED increases complexity. Complexity is added by two separate disclosure thresholds. We envision subjectivity and second guessing in determining what constitutes "mitigating events and conditions". We have the same concerns regarding what constitutes "in the normal course". Is the issuance of debt in the normal course for highly leveraged entities but not for others? The required entity-specific determination would exacerbate the subjectivity and increase the diversity in disclosures.



Complexity is also added though the introduction of a new accounting concept, “known or probable”. Does known have to be evidenced in writing or through communication by management? What about matters that should have been known? What is the threshold for probable in this context?

Finally, the 24 month timeframe is too long. Changes in an entity’s finances and liquidity can occur quickly, for example when lenders or creditors decide to reduce their credit exposure. Although most entities might realize that such a reduction in liquidity **could** occur, they would not **know** that it **would** occur 24 months in advance. Most entities experiencing difficulties attempt to prepare annual budgets or 12 month rolling forecasts. However, our experience suggests that those forecasts are difficult to prepare and often miss the mark. So any attempt to forecast beyond 12 months would not involve sufficient rigor and detail to reasonably assess the likelihood of an entity’s survival. Further, in the experience of our members, it would be rare for management to contact bankruptcy attorneys and advisors and seriously contemplate bankruptcy 24 months in advance. Because of these limitations we believe that the 24 month timeframe is not operational and the current 12 month period in the auditing literature should be retained.

Litigation Homerun

Under the disclosures requirements in the ED which move information into footnotes without safe harbor afforded forward looking information in SEC documents, we envision a field day for the plaintiffs’ bar. Lawsuits would certainly emerge upon a business failure when early warning disclosures in the previous 24 months did not meet the requirements of the ED, disclosures in the previous 24 months were somehow considered inadequate or there were no early warning disclosures. Plaintiffs would enjoy the benefit of hindsight and argue what they believe management should have known. The reality of the US legal system renders the ED nonoperational.

No Public vs. Private Distinction

We believe that the guidance in US GAAP regarding the going concern presumption should make no distinction between public and private entities. As noted above, an entity’s ability to continue as a going concern is a fundamental presumption for general purpose financial statements which applies to both public and private companies and is equally important to both sets of users. Further, the auditing literature makes no distinction between public and private.

Recommendation

We believe that the ED is not operational. The requirements introduce complexity and are difficult to implement and audit. Equally as important, the disclosures may have the unintended consequences of creating a self-fulfilling prophecy relative to liquidity and providing a roadmap for litigation in the event of a business failure. We recommend that guidance in US GAAP simply incorporate existing practice stemming from the guidance in the auditing literature. Such guidance would be applicable to both public and private companies, cover a period of no more than one year and indicate that the inability to continue as a going concern is clearly evident in the near term.



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We would be pleased to discuss these comments with you at your convenience.

Sincerely,

A handwritten signature in blue ink, appearing to read "N. Schroeder".

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A handwritten signature in blue ink, appearing to read "J. Exline".

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