

MEMO# 27349

July 2, 2013

FASB Proposal to Require Going Concern Assessment

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TO: ACCOUNTING/TREASURERS COMMITTEE No. 21-13 RE: FASB PROPOSAL TO REQUIRE GOING CONCERN ASSESSMENT

The Financial Accounting Standards Board recently released an exposure draft of a proposed accounting standards update that would require management to assess going concern uncertainties at each interim and annual reporting period. [\[1\]](#) Under the proposal, management would provide going concern-related financial statement footnote disclosures when specified thresholds are met. Generally accepted accounting principles currently contain no guidance about when and how going concern uncertainties should be disclosed in financial statements. Generally accepted auditing standards, however, require an auditor to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern. Comments on the proposal are due September 24, 2013.

Assessment

The proposal applies to all entities, including investment companies. An entity must assess its potential inability to meet its obligations as they become due within 24 months after the financial statement date. In performing the assessment, the entity must consider all information about conditions and events that exist at the date the financial statements are issued including, for example:

- a. Sources of liquidity, including available liquid funds and access to credit;
- b. Funds necessary to maintain operations in the ordinary course of business; and
- c. Conditional and unconditional obligations due or anticipated within 24 months after the financial statement date.

The entity must provide going concern uncertainty disclosures if management's assessment indicates:

- a. It is more likely than not that the entity will be unable to meet its obligations within 12 months after the financial statement date without taking actions outside the ordinary course of business; or
- b. It is known or probable that the entity will be unable to meet its obligations within 24 months after the financial statement date without taking actions outside the ordinary

course of business.

The proposal's basis for conclusions describes management's assessment and the information to be assessed and indicates that the FASB acknowledged that a detailed analysis may not be necessary if an entity has a history of profitable operations and ready access to financial resources after considering available information about conditions and events.

Disclosures

When a disclosure threshold is satisfied, the entity must disclose in the financial statement footnotes all of the following:

- a. The principal conditions and events that give rise to the potential inability of the entity to meet its obligations;
- b. The possible effects those conditions and events could have on the entity;
- c. Management's evaluation of the significance of those conditions and events;
- d. Mitigating conditions and events; and
- e. Management's plans that are intended to address the entity's potential inability to meet its obligations.

Substantial Doubt

An entity that is an SEC filer must also evaluate whether there is substantial doubt about its ability to continue as a going concern within 24 months after the financial statement date. Substantial doubt about an entity's ability to continue as a going concern exists when information about existing conditions and events, after considering the mitigating effects of management's plans (including those outside the ordinary course of business) indicates it is probable that the entity will be unable to meet its obligations as they become due within 24 months. If substantial doubt exists, management would be required to provide that disclosure in the financial statement footnotes.

Effective Date

The effective date of the proposal will be determined by the FASB after it considers comments from constituents. The proposed amendments will apply prospectively for reporting periods after the effective date.

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endnotes

[1] FASB Exposure Draft, [Disclosure of Uncertainties about an Entity's Going Concern Presumption](#) (June 26, 2013).