FASB Issues Proposed Going Concern Standard

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As previously reported, the Financial Accounting Standards Board decided in November 2012 to proceed with its project to require companies to provide enhanced disclosures where there are questions regarding their financial viability. Last week, as described in this FASB Summary, FASB finally issued its formal proposal to require companies to evaluate and disclose "going concern uncertainties." FASB's exposure draft emphasizes that financial statements reflect a presumption that a reporting entity will be able to realize its assets and meet its obligations in the ordinary course of business, and that there should be consistent standards for management's evaluation of, and disclosures about, uncertainties that could affect that presumption.

The key terms of the proposal include:

- An entity would evaluate going concern uncertainties by assessing the likelihood that the entity would be unable to meet its obligations as they come due within the 24 months after the financial statement date.
- The entity would conduct this evaluation at each annual and interim reporting period.
- The entity would start providing footnote disclosures when it is either
  - *more likely than not* that the entity will be unable to meet its obligations within 12 months without taking actions outside the ordinary course of business, or
  - *known* or *probable* that the entity will be unable to meet its obligations within 24 months without taking actions outside the ordinary course of business.
- If the disclosure threshold was met, the entity would disclose a description of
  - the principal conditions and events that give rise to the entity's potential inability of meet its obligations,
  - the possible effects those conditions and events could have on the entity,
  - management's evaluation of the significance of those conditions and events,
  - mitigating conditions and events, and
  - management's plans that are intended to address the entity's potential inability to meet its obligations.
- If the entity is an SEC reporting company, the entity would also be required to evaluate

> whether there is a substantial doubt about its going concern presumption. Substantial doubt would exist if, after assessing existing conditions and events and after considering all of management's plans (including those outside the ordinary course of business), it is *known* or *probable* that the company will be unable to meet its obligations within 24 months. The company will be specifically required to word its disclosures using the terms "substantial doubt" and "ability to continue as a going concern."

FASB's proposal is likely to continue to be controversial, particularly with respect to SEC reporting companies, as many believe that requiring a company to make and disclose these types of negative assessments could become a self-fulfilling prophecy.