
FASB Moving Forward on Going Concern Standard

NOVEMBER 14, 2012

The Financial Accounting Standards Board (FASB) has decided to proceed towards developing a new financial reporting standard for management's assessment of going concern. Historically, US auditing standards have required an auditor to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern for at least one year. However, accounting standards have not included a requirement for management to assess a company's ability to continue as a going concern. FASB has been considering whether to adopt such rules for several years.

As described in FASB's [Action Alert](#) summarizing its November 7 meeting, under the new model:

- Management would assess at each reporting period (including interim periods) an entity's potential inability to continue as a going concern and the need for related disclosures. Management would consider the likelihood of an entity's potential inability to meet its obligations as they become due for a reasonable period of time.
- Management would be required to provide financial statement disclosures when management concludes that it is *more likely than not* that the entity will not be able to meet its obligations in the ordinary course of business for a reasonable period of time. In assessing the need for disclosure, management would be able to consider the effect of mitigation plans, unless they involve actions outside of the ordinary course of business.
- If management concludes it is *probable* that the entity will not be able to meet its obligations in the ordinary course for a reasonable period of time, it must state that there is substantial doubt about the entity's ability to continue as a going concern. In making this determination, management may consider the effect of all management plans.
- For these purposes, a reasonable period of time would be 12 months from the end of the reporting period. In addition, management's assessment would consider the effect of existing events or conditions that are *probable* of resulting in an entity's inability to meet its obligations beyond the initial 12 months, but not to exceed a total period of 24 months.
- FASB does not specify any bright-line percentages for defining *more likely than not* and *probable*.

FASB intends to hold additional discussions on the going concern project in December 2012 and issue an exposure draft implementing the standard by March 2013.

