
FASB Issues New Going Concern Standard

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On August 27, the Financial Accounting Standards Board issued [Accounting Standards Update No. 2014-15](#), which establishes the Board's new going concern disclosure standard for public and non-public companies. The new standard requires management to assess, in the aggregate, conditions or events that raise "substantial doubt" about the organization's ability to continue operating as a going concern. Substantial doubt exists if it is "probable" that the entity will be unable to meet its obligations as they become due within one year after the date the financial statements are issued or available for issuance. The standard incorporates the definition of "probable" from ASC 450, the standard for loss contingencies (ASC 450), i.e., that a future event is "likely to occur."

Under the new standard, for each interim and annual reporting period, management must first assess whether substantial doubt about the organization's ability to continue as a going concern exists. If management believes substantial doubt exists, management must then consider whether plans to mitigate the conditions giving rise to substantial doubt will alleviate the substantial doubt. Management may find that the substantial doubt is alleviated only if it is probable that the mitigating plans will be effectively implemented and it is probable that management's plans will mitigate those conditions or events giving rise to the substantial doubt. If management concludes that substantial doubt exists (whether or not it is alleviated), management must provide footnote disclosure:

- If the substantial doubt is alleviated, the footnotes must present information that enables users to understand (a) the principal conditions or events that raised substantial doubt (before management's plans), (b) management's evaluation of the significance of these conditions in relation to the entity's ability to meet its obligations, and (c) management's plans that alleviated the substantial doubt.
- If the substantial doubt is not alleviated, the footnotes must state that there is substantial doubt about the entity's ability to continue as a going concern within one year after the issuance of the financial statements. The footnotes also must disclose (a) the principal conditions or events that raise substantial doubt, (b) management's evaluation of the significance of these conditions in relation to the entity's ability to meet its obligations, and (c) management's plans that are intended to mitigate the conditions or events that raise substantial doubt.

The new standard takes effect for annual periods ending after December 15, 2016, and for interim

periods within annual periods ending after December 15, 2016. For calendar year filers, this means that the standard will apply in 2016. Although early application is permitted, FASB recommends that the first period of adoption be an annual period to align with the organization's annual audit.

The new standard differs in significant respects from FASB's 2013 proposed standard (see [previous post](#)). Most notably, FASB did not adopt a proposed requirement to look out 24 months from the financial statement date. It also changed the standard for disclosure from "more likely than not" to "probable" that the company would not be able to continue as a going concern for the next 12 months. The standard also eliminated a separate evaluation and reporting requirement for SEC reporting companies.

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