New Going Concern Disclosures

Substantial Doubt Alleviated (or Reinforced???)

"The difference between the right word and the almost right word is the difference between lightning and a lightning bug." –Mark Twain

FASB Accounting Standards Update (ASU) 2014-15, Presentation of Financial Statements – Going Concern, codified the going concern concept into U.S. generally accepted accounting principles (U.S. GAAP). The standard establishes what management’s responsibility is related to evaluating whether there is substantial doubt about an entity’s ability to continue as a going concern. The standard does not permit consideration of management’s plans in the initial assessment regarding whether there is substantial doubt about an entity’s ability to continue as a going concern (initial assessment). Based on the initial assessment, if management identifies conditions or events that raise substantial doubt about the reporting entity’s ability to continue as a going concern, they will need to consider whether their plans will alleviate the substantial doubt. Management will need to consider (1) whether it’s probable that the plans can be effectively implemented and, if so, (2) whether it’s probable that the plans will mitigate the conditions or events that raise substantial doubt.

Note disclosure is required in cases where substantial doubt is alleviated by management’s plans (substantial doubt alleviated) and when substantial doubt is not alleviated by management’s plans (substantial doubt exists). ASU 2014-15 is effective for annual periods ending after December 15, 2016 for all entities.

With ASU 2014-15 now effective, in this report, we examine financial statements issued by public companies where substantial doubt was alleviated. We find considerable user confusion, and in some cases with apparent economic consequences, regarding the
disclosures when substantial doubt was alleviated, with many users not discerning between entities where substantial doubt was alleviated and where substantial doubt exists. We also found diversity regarding the wording of the required disclosures when substantial doubt was alleviated. Some entities appeared to carefully word disclosures in order to attempt to avoid unintended consequences but may be sacrificing transparency and compliance.

**Practice Note:** In our initial report on this topic in September 2014, “Going Concern Codified Into U.S. GAAP: New Challenges for a Delicate Process,” we noted studies had indicated that going concern issues disproportionately apply to smaller, typically private, entities. While the financial statements that we examine in this report are based on public filings of public companies, the financial reporting issues apply to any entity issuing U.S. GAAP financial statements. Further, in a notable break with recent precedent, the FASB did not allow private companies a deferred effective date as compared to public business entities. Given that going concern issues disproportionately apply to smaller, typically private entities, the early lessons from these public company filings should be of acute and immediate interest for private companies with going concern questions.

We also reviewed the financial statements of public companies where substantial doubt exists which applied ASU 2014-15 for the first time this reporting season. Many of these entities noted that the implementation of ASU 2014-15 did not materially impact financial statement disclosures. Accordingly, our focus in this report will be on entities where substantial doubt was alleviated.

**The History- Substantial Doubt Alleviated**

AU-C 570A.13 has historically required disclosure when substantial doubt is alleviated AU-C 570A.13 indicates that:

> When the auditor concludes, primarily because of the auditor's consideration of management's plans, that substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time has been alleviated, the auditor should consider the need for, and evaluate the adequacy of, disclosure of the principal conditions or events that initially caused the auditor to believe there was substantial doubt. The auditor's consideration of disclosure should include the possible effects of such conditions or events, and any mitigating factors, including management's plans.
(Author’s Note- AU-C 570A.13 clarified AU 341.11 and is consistent with AU 341.11. AU 341.11 is identical to AS 2415.11-used by auditors of public companies. When SAS 132 becomes effective, the above is replaced with AU-C 570.22).

The FASB referenced this in the Basis for Conclusions (BC) for ASU 2014-15 indicating at BC 36 that:

“\[
\text{The Board decided that users of financial statements are best served if they are provided with disclosures about instances for which substantial doubt otherwise would exist but is alleviated by management’s plans…The Board also noted that this approach is generally consistent with existing disclosure practices.}
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CPEA Observation: We agree that the approach would appear to be generally consistent with existing disclosure practices in audits as a result of AU-C 570A.13/AU 341.11/AS 2415.11. However, we also note that review, compilation, and preparation standards are silent on disclosures when substantial doubt is alleviated. ASU 2014-15 applies to all U.S. GAAP financial statements, including those reviewed, complied, or prepared.

ASU 2014-15 Disclosures- Substantial Doubt Alleviated

ASU 2014-15 requires disclosures when substantial doubt is raised but is alleviated by management’s plans (substantial doubt does not exist). These disclosure requirements are codified in FASB ASC 205-40-50-12 which indicates:

“\[
\text{If, after considering management’s plans, substantial doubt about an entity’s ability to continue as a going concern is alleviated as a result of consideration of management’s plans, an entity shall disclose in the footnotes information that enables users of the financial statements to understand all of the following (or refer to similar information disclosed elsewhere in the footnotes):}
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a. Principal conditions or events that raised substantial doubt about the entity’s ability to continue as a going concern (before consideration of management’s plans)
b. Management’s evaluation of the significance of those conditions or events in relation to the entity’s ability to meet its obligations

c. Management’s plans that alleviated substantial doubt about the entity’s ability to continue as a going concern.

**Practice Note:** The disclosure requirements in ASU 2014-15 when substantial doubt is alleviated are similar to AU-C 570A.13. Therefore, upon adoption of ASU 2014-15, disclosures, when substantial doubt is alleviated, may be similar to those disclosures made in previous financial statements. However, the requirements in AU-C 570A.13 are something the auditor “should consider the need for, and adequacy of” disclosure and are not a direct requirement of the preparer (one of the reasons for the issuance of ASU 2014-15). Further, the disclosure requirements on the preparer in ASU 2014-15 are more explicit—“an entity shall disclose…” vs. what the auditor “should consider the need for, and adequacy of.” Also, as noted above, review, compilation, and preparation standards are silent on disclosures when substantial doubt is alleviated. In our analysis of public company financial statements discussed below, in cases where substantial doubt was alleviated by management’s plans in the current year, disclosures were different than in previous financial statements.

The FASB also noted in the Basis for Conclusions (BC) that the disclosures now required when substantial doubt is alleviated by management’s plans (BC 36), “should give financial statement users the opportunity to evaluate the likely success of those plans in mitigating the conditions or events that raised substantial doubt.” In the financial statements of public companies applying ASU 2014-15 for the first time where substantial doubt was alleviated by management’s plans, some users did not appear to make an evaluation of the success of those plans. Rather, public statements from these users indicated that they did not make a distinction between entities where substantial doubt was alleviated by management’s plans and where substantial doubt was not alleviated by management’s plans (substantial doubt exists).

**Is Disclosure that Substantial Doubt Was Raised in the Initial Assessment Required When Alleviated by Management’s Plans?**

When substantial doubt has been alleviated by management’s plans, the disclosure requirements in ASU 2014-15 do not include a requirement to make an explicit statement that substantial doubt was alleviated by management’s plans. This contrasts with the disclosure requirements when management’s plans do not alleviate substantial doubt (substantial doubt exists). When substantial doubt exists, FASB ASC 205-40-50-13 requires, “a statement in the footnotes indicating that there is substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the
financial statements are issued.” As a result, it would appear that it would not be necessary to make an explicit statement that substantial doubt was raised but was alleviated by management’s plans if the notes to the financial statements can otherwise satisfy the disclosure requirements noted above. Our report in September 2016 had a disclosure example when substantial doubt was raised but was alleviated by management’s plans. The example did not include an explicit statement that substantial doubt was raised but was alleviated by management’s plans.

An alternative view is that it would not be possible to disclose the “principal conditions or events that raised substantial doubt about the entity’s ability to continue as a going concern (before consideration of management’s plans)” without indicating that substantial doubt existed before consideration of management’s plans. Further, the statement that substantial doubt existed before consideration of management’s plans provides necessary context for the user to “evaluate the likely success of those plans in mitigating the conditions or events that raised substantial doubt” (BC 36).

This diversity in views appears to have given rise to a technical inquiry on the question to the FASB. The response below, which we confirmed with FASB staff, was reported on recently by Ernst and Young:

“In response to a recent technical inquiry, the FASB staff indicated that when management concludes that its plans alleviate substantial doubt, the disclosure objectives in ASC 205-40 may be met without including a statement that substantial doubt was raised.

However, the FASB staff indicated that the extent of the disclosures provided by an entity should be commensurate with the level of judgment required in determining that management’s plans alleviate substantial doubt. For example, an entity that is well capitalized and has both an investment-grade credit rating and a history of substantial income and operating cash flow may have debt coming due within the assessment period, but it may have determined that substantial doubt was alleviated by management’s plans. In this case, the entity’s disclosures would likely be less extensive than those of an entity that reached the same conclusion but has a speculative credit rating and operates in an industry that is experiencing economic challenges.”
We note that recent public company financial statements adopting ASU 2014-15 for the first time where substantial doubt appeared to be alleviated by management’s plans took three different approaches to disclosure:

- Disclose that substantial doubt was raised but indicate that management’s plans alleviated substantial doubt. Indicate that management’s plans are probable of occurrence. Hereafter, we will use the term “Explicit Statement” to describe these financial statements.
- Disclose that absent management’s plans, the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. Indicate management’s plans are probable of occurrence. This approach appears to use portions of the definition of substantial doubt. Hereafter, we will use the term “Definition Based Statement” to describe these financial statements.
- No explicit disclosure that substantial doubt was raised but alleviated by management’s plans or that absent management’s plans, the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. Hereafter, we will use the term “No Explicit Statement” to describe these financial statements.

Each approach to disclosure carries risks and may have unintended consequences. The disclosures must delicately balance the needs of users, compliance, and potentially significant unintended consequences. The unintended consequences appeared to have been magnified by user confusion over the new disclosure requirements and, in some cases, a failure to discern between situations where substantial doubt was alleviated and when substantial doubt exists.

**Explicit Statement**

*Sears Holding Corporation*

On March 21, 2017, Sears Holding Corporation filed, with the SEC, its financial statements for the year ended January 29, 2017. In those financial statements, Sears Holding Corporation (Sears) under a caption titled, *Sources and Uses of Liquidity*, in the first note to the financial statements, describes various liquidity inflows and outflows in the first nine paragraphs. In the tenth paragraph, Sears notes that:

> Our historical operating results indicate substantial doubt exists related to the Company’s ability to continue as a going concern. We believe that the actions
discussed above are probable of occurring and mitigating the substantial doubt raised by our historical operating results and satisfying our estimated liquidity needs 12 months from the issuance of the financial statements. However, we cannot predict, with certainty, the outcome of our actions to generate liquidity, including the availability of additional debt financing, or whether such actions would generate the expected liquidity as currently planned.

Other than a SEC required disclosure for new accounting pronouncements, the terms “substantial doubt” and “going concern” are not found anywhere else in the financial statements for the year ended January 29, 2017 or for the prior year ended January 30, 2016. The 2017 and 2016 audit opinion by Deloitte & Touche LLP did not include an explanatory paragraph (in AU-C this is known as an emphasis-of-matter paragraph) noting substantial doubt about the ability of Sears to continue as a going concern.

CPEA Observation: It is interesting that Sears choose to use the word “mitigating” instead of the more commonly used word “alleviating” when describing the effect of management’s plans on the substantial doubt condition. The two words are synonyms per Merriam-Webster, however, the term “alleviate” is much more commonly understood in the context of discussions about management’s plans and substantial doubt about going concern.

User reaction to the Explicit Statement by Sears was swift and appeared to sharply focus on the statement that substantial doubt exists related to the Company’s ability to continue as a going concern with little apparent consideration to the following sentence which indicated that “the actions...are probable of occurring and mitigating the substantial doubt...”

"The company's disclosure turned the focus to its vendors as tension is expected to mount ahead of the key fourth-quarter selling season amid rising concern about a potential bankruptcy," they said.

The storied American retailer, whose roots date back to 1886, said in its annual report for the fiscal year ended Jan 28 on Tuesday that "substantial doubt exists..."
related to the company’s ability to continue as a going concern. (Bangkok Post, March 24, 2017)

Bondholders and investors on Wednesday turned their attention to questions about just how long Sears Holdings Corp can remain in business, a day after the company's surprise disclosure it may not survive as a going concern. (Reuters, March 22, 2017)

Creditors, investors raise concerns over Sears going-concern warning
The disclosure raised concerns over the retailer's debt load and its ability to stock inventory heading into the crucial 2017 holiday season.

"While I don't think the new disclosure means they will definitely file [bankruptcy] in 2017, it does seem to signal that the next 12 months are even more crucial than has been the case in recent years, as their margin of error is getting slim," said Chad Brand, president of Peridot Capital Management, a Sears bondholder. (Fox Business, March 22, 2017)

Sears Plummets After Filing Sparks Concern That End Is Near (Bloomberg, March 21, 2017)

Sears is drowning in "going concern" SEC filing uproar
Sears is now doing some damage control, following its recent annual report SEC filing released earlier this week, after disclosing its doubt that the company can continue operating as a "going concern." (Fashion Network, March 23, 2017)

**CPEA Observation:** As we noted above, the terms “substantial doubt” and “going concern” were only found in Notes to the Consolidated Financial Statements for Sears. Some have suggested that users do not pay attention to the disclosures in the notes to the financial statements. Clearly, that was not the case here.

Some later reporting appeared to have more accurately and completely (in our view) described the financial statements of Sears. On March 23, 2017, in an article titled, “What Investors Missed in the Sears ‘Going Concern’ Warning” the Wall Street Journal reported that:

Sears Holdings jolted investors this week when it said it had doubts about its ability to stay in business. But investors should make sure they are paying attention to all of what the company is saying.
The retail giant said Tuesday in its annual report that it had “substantial doubt” about its ability “to continue as a going concern” — ominous language that typically suggests there is a real risk a company might not make it through the next year. Largely ignored: In the next breath, Sears said it believed it was “probable” that the steps it’s taking to alleviate problems — including amending its credit lines, cutting costs and selling assets — would work.

Other reporting focused on the perceived disconnect between the audit report by Deloitte & Touche LLP (which did not include an explanatory paragraph noting substantial doubt about the ability of Sears to continue as a going concern) and the Sears going concern disclosures. Marketwatch (March 22, 2017) and Compliance Week (March 24, 2017) reported that this may have been the result of different look forward dates in PCAOB auditing standards (one year from balance sheet date) and FASB accounting standards (one year from financial statement issuance). Both Compliance Week and Marketwatch also suggested that Sears may want to be “more conservative” than Deloitte & Touche LLP about whether or not it can make it through the next twelve months. Compliance Week also suggested that the perceived disconnect could be the result of different meanings of the word “substantial doubt” in PCAOB auditing standards and FASB accounting standards.

Deloitte & Touche declined further comment beyond its audit opinion in various media reports citing client confidentiality. Accordingly, it is not possible to know with certainty what their assessment was on the initial assessment by Sears. However, in our view, it seems clear from the financial statements that management’s plans alleviated substantial doubt about the ability of Sears to continue as a going concern within one year after the date the financial statements were issued. If Deloitte & Touche was satisfied with this assessment, a going concern explanatory paragraph would not have been required. It appears to us that this is what took place. An article from BNA on March 28, 2017 shared this sentiment quoting Baruch College professor and former PCAOB Chief Auditor Douglas Carmichael noting it is “very important” to note that Deloitte & Touche LLP didn’t refer to the company’s going concern finding in the audit firm’s report. “That would indicate that it is likely that Deloitte was satisfied that substantial doubt had been alleviated,” Carmichael said.

**CPEA Observation:** While the financial reporting and auditing conclusions may be clear to an experienced practitioner, it also is clear that considerable confusion arose among those using the financial statements and the related audit report, which audit and accounting standards setting bodies may wish to address with additional education and communication. As we discuss later, users have been conditioned over a long period
of time regarding the meaning of certain phrases. We also note that Sears indicated in their financial statements that the adoption of the new going concern standard “did not have a material impact” on the disclosures. Obviously, some users took a different view.

*BioCryst Pharmaceuticals, Inc*

BioCryst Pharmaceuticals, Inc. (BioCryst) also used an Explicit Statement to comply with the disclosure requirement when substantial doubt was alleviated by management’s plans. In their financial statements for the year ended December 31, 2016, Note 1, under a caption titled, *The Company*, they disclosed:

> With the funds available at December 31, 2016, the Company believes these resources will be sufficient to fund its operations into 2018. The Company has sustained operating losses for the majority of its corporate history and expects that its 2017 expenses will exceed its 2017 revenues. The Company expects to continue to incur operating losses and negative cash flows until revenues reach a level sufficient to support ongoing operations. Accordingly, its planned operations raise doubt about its ability to continue as a going concern. The Company’s liquidity needs will be largely determined by the success of operations in regards to the progression of its product candidates in the future. The Company’s plans to alleviate the doubt of its going concern, which are probable of effectively being implemented and mitigating these conditions, primarily include its ability to control the timing and spending on its research and development programs and raising additional funds through equity financings...[Company describes a variety of other plans it may consider]...The Company’s future liquidity needs, and ability to address those needs, will largely be determined by the success of its product candidates and key development and regulatory events and its decisions in the future.

The Company made a similar disclosure later in Note 1 of the financial statements under a caption titled, *Going Concern*. Similar to Sears, the audit report from Ernst & Young LLP did not include an explanatory paragraph referencing a going concern issue in 2016 or 2015. In one notable difference from Sears, BioCryst did not use the term “substantial” when describing “doubt about its ability to continue as a going concern.” The term “substantial doubt” is not found in BioCryst financial statements. In the prior year, BioCryst made a disclosure similar to the one copied above in Note 1 but without any reference to doubt about its ability to continue as a going concern or its plans alleviate the doubt of its going concern.
We did not find any user reaction specific to the new going concern disclosures. It is likely that this is a result of the nature of the entity, which has incurred losses and negative cash flows since inception.

Definition Based Statement

Another disclosure approach in financial statements utilized portions of the definition of substantial doubt about an entity’s ability to continue as a going concern. The definition, from ASU 2014-15 is quoted below:

“Substantial doubt about an entity’s ability to continue as a going concern exists when conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable). The term probable is used consistently with its use in Topic 450 on contingencies.

These disclosures focused on management’s plans that would be necessary in order for the entity to meet its obligations as they become due within one year after the date the financial statements are issued. They did not include a statement similar to the disclosure that Sears made that conditions (without consideration of management’s plans) “indicate substantial doubt exists related to the Company's ability to continue as a going concern.”

iheartmedia Capital I, LLC

In Note 1 to the financial statements for the year ended December 31, 2016 under a caption, Going Concern Considerations, iheartmedia Capital I, LLC (iheartmedia) discusses the requirements of ASU 2014-15. Then the company describes a variety of factors impacting cash flow. After that iheartmedia discusses the conclusions it came to:

“These factors coupled with the Company's forecast of future cash flows indicates that such cash flows would not be sufficient for the Company to meet its obligations, including payment of the outstanding receivables based credit facility balance at maturity, as they become due in the ordinary course of business for a period of 12 months following February 23, 2017 [the date the financial statements were issued].”
The Company plans to refinance or extend the receivables based credit facility to a date at least 12 months after February 23, 2017 with terms similar to the facility’s current terms.

Management believes the refinancing or extension of the maturity of the receivables based credit facility is probable of being executed as the Company has successfully extended the maturity date of this receivables based credit facility in the past, and the facility has a first-priority lien on the accounts receivable of iHeartCommunications and certain of its subsidiaries (see Footnote 5). Management’s plan to refinance or extend the due date of the receivables based credit facility, combined with current funds and expected future cash flows, are considered to be sufficient to enable the Company to meet its obligations as they become due in the ordinary course of business for a period of 12 months following the date these financial statements are issued.

While management plans to refinance or extend the maturity of the receivables based credit facility and has begun discussing such refinancing or extension with its receivables based credit facility lenders, there is no assurance that the receivables based credit facility will be refinanced or extended in a timely manner, in amounts that are sufficient to meet the Company’s obligations as they become due, or on terms acceptable to the Company, or at all. The Company’s ability to meet its obligations as they become due in the ordinary course of business for the next 12 months will depend on its ability to achieve forecasted results and its ability to refinance or extend the maturity of its receivables based credit facility. Management’s belief that the receivables based credit facility will be refinanced or extended and that such refinancing or extension, together with forecasted operating cash flow, will be sufficient to enable the Company to meet its obligations as they become due in the ordinary course of business for 12 months following the date these financial statements are issued assumes, among other things, that the Company will continue to be successful in implementing its business strategy and that there will be no material adverse developments in its business, liquidity or capital requirements. If one or more of these factors do not occur as expected, it could cause a default under one or more of the agreements governing the Company’s indebtedness.

The audit report from Ernst & Young LLP did not include an explanatory paragraph referencing a going concern issue in 2016 or 2015. In the prior year, the financial statements did not include a caption which discussed Going Concern Considerations,
although liquidity disclosures were made outside the financial statements in the Form 10-K.

We did not find any user reaction specific to the new going concern disclosures. This is noteworthy as iheartmedia, while not as well-recognized as Sears, is a large national media and advertising company.

No Explicit Statement

Some entities which noted going concern matters did not disclose that substantial doubt was raised about the entity’s ability to continue as a going concern (before consideration of management’s plans) in an “Explicit Statement” or that management’s plans would be necessary in order for the entity to meet its obligations as they become due within one year after the date the financial statements are issued, “Definition Based Statement.” As a result, we had difficulty in knowing what the results of the initial assessment were and evaluating the likely success of plans in mitigating the conditions or events that raised substantial doubt (if it was initially raised).

United States Antimony Corporation

The United States Antimony Corporation (USAC) disclosed in Note 3 under the caption titled, Going Concern Considerations, that it had negative working capital, accumulated deficits, and had incurred losses. The Company further disclosed that these “factors indicate that there may be doubt regarding our ability to continue as a going concern for the next twelve months.” Then the Company discussed various business conditions and plans and concluded the disclosure under this caption by stating that they “believe that our current circumstances and actions taken by management will enable us to be actively operating for the next twelve months.”

The audit report from DeCoria, Maichel & Teague, P.S. did not include an explanatory paragraph referencing a going concern issue in the 2016 or 2015 financial statements. In the prior year, the financial statements did not include disclosures similar to the “Going Concern Considerations” in the current year financial statements.

We did not find any user reaction specific to the new going concern disclosures. It is likely that this is a result of the nature of the entity, which has negative working capital, accumulated deficits, and incurred losses.

CPEA Observation: The USAC financial statement disclosure indicates that “there may be doubt regarding our ability to continue as a going concern for the next twelve months.” (author’s emphasis). This conditional language leaves the user uncertain about the results of the initial assessment. While not applicable to financial statement disclosures,
auditing standards (AU-C 570.25/AU-C 570A.16/AS 2415.13) prohibit conditional language like this in a going concern emphasis-of-matter (EOM) or explanatory paragraph.

**Disclosure Issue not Limited to Troubled Entities**

The new disclosures when substantial doubt is alleviated will not solely apply to troubled entities. The FASB staff technical inquiry response notes a type of entity which is:

> …well capitalized and has both an investment-grade credit rating and a history of substantial income and operating cash flow may have debt coming due within the assessment period, but it may have determined that substantial doubt was alleviated by management’s plans.

This type of entity may not have considered that the new disclosures, when substantial doubt is alleviated, apply. If the entity is not able to repay the debt coming due in the assessment period without consideration of management’s plan to defer repayment, then the new disclosures when substantial doubt is alleviated should be made. If those disclosures are made, it’s possible that the risks discussed above relative to a financial statement user disregarding management’s plans and concluding that substantial doubt exists could arise. A private entity in this situation would be able to control distribution of its financial statements and provide additional information to lender users, if necessary. However, some entities provide financial statements to customers, passive shareholders, and vendors for various reasons including contractual requirements. These users, absent additional information, also may inappropriately conclude that substantial doubt exists (when substantial doubt has been alleviated) which could have economic consequences, similar to Sears.

**Private Company Considerations**

Private companies have additional options to consider. Private companies have more latitude in the timing of the release of the financial statements. While it always will be necessary to perform a look forward to determine if substantial doubt exists (since the look forward period is one year after the date the financial statements are issued), a private company many have the option to release the financial statements at such a time where the results of the initial assessment are more favorable (such as after a debt refinancing). Private companies are also at greater liberty to communicate directly to users of financial statements which may permit greater understanding regarding disclosures when substantial doubt is alleviated.
Private company auditors can use an EOM paragraph (not required) when substantial doubt is alleviated. AU-C 570.A55 has a sample EOM paragraph when substantial doubt is alleviated. This sample EOM paragraph does not use the terms “substantial doubt” or “going concern.” However, we caution that users may not distinguish between this sample EOM paragraph and the required going concern EOM paragraph, particularly if an Explicit Statement is made in the notes to the financial statements.

Review, compilation, and preparation engagements do not have requirements similar to the auditing standards regarding the adequacy of disclosures when substantial doubt is alleviated. U.S. GAAP may have required disclosure for various items such as risks and uncertainties, contingencies, commitments, and debt obligations (items which could cause an initial assessment that substantial doubt was raised). However, prior to ASU 2014-15, no requirement existed for management or the accountant related to disclosures in the context of substantial doubt being alleviated in a review, compilation, or preparation engagement. In our view, given the lack of previous experience, these entities (i.e., entities that are the subject of review, compilation, and preparation engagements) are most significantly impacted by the new disclosure requirements when substantial doubt is alleviated. These entities may have benefited from a deferred effective date for ASU 2014-15; however, the standard is effective for all entities for financial statements for the annual period ending after December 15, 2016.

**Implications**

The introduction of new required disclosures when substantial doubt is alleviated presents entities with a challenge to accurately describe the conditions at the entity without automatically causing users to think that substantial doubt exists. The challenge is complicated by the decades of past practice where users looked to the auditor’s report to see if a going concern paragraph was present. Auditing standards for the past 20 years have not allowed conditional language in expressing a conclusion concerning the existence of substantial doubt about the entity’s ability to continue as a going concern in the auditor’s report. Accordingly, users have been conditioned by decades of past practice to look at substantial doubt about the entity’s ability to continue as a going concern as an on/off, binary determination led by the auditor’s report. As a result, it is not surprising that some users did not discern between substantial doubt being alleviated and substantial doubt existing when presented with legacy language in the notes to the financial statements such as “[o]ur historical operating results indicate substantial doubt exists related to the Company’s ability to continue a going concern.”

While direct disclosure requirements for the preparer when substantial doubt is alleviated is new, in many cases other U.S. GAAP already requires disclosure of issues that cause substantial doubt to be initially raised. As a result, the substance of issues which initially caused substantial doubt to be raised have, in many cases, previously been disclosed.
under U.S. GAAP disclosure requirements for items such as risks and uncertainties, contingencies, commitments, and debt obligations. Further, as noted above, auditing standards previously required the auditor to “evaluate the adequacy of, disclosure of the principal conditions or events that initially caused the auditor to believe there was substantial doubt.” However, in financial statements initially adopting ASU 2014-15, we noted increased disclosure including more direct references to going concern matters.

The challenge facing entities where substantial doubt is alleviated is to properly communicate in disclosure and to do so in such a way that users draw a distinction, where appropriate, from entities where substantial doubt exists. The phrase “substantial doubt exists related to the entity’s ability to continue as a going concern” appears inextricably linked to a final conclusion that substantial doubt exists for some users. If that phrase is used to describe the conclusion of the initial assessment (before consideration of management’s plans), it appears likely that management’s plans may not be considered by some users. Those users may reflexively assume that substantial doubt exists. We do not feel that a statement that substantial doubt was raised is required in order to satisfy the disclosure requirements of FASB ASC 205-40-50-12. This view is supported by the technical inquiry made to the FASB staff (discussed earlier in this report). However, the clarity of disclosure could be lessened by the lack of an Explicit Statement.

The iheartmedia disclosure approach appears to be worthy of consideration for an entity. Rather than indicating that conditions (without considering management’s plans) raise substantial doubt, iheartmedia indicated that various factors indicate “that such cash flows would not be sufficient for the Company to meet its obligations, including payment of the outstanding receivables based credit facility balance at maturity, as they become due in the ordinary course of business for a period of 12 months following February 23, 2017 [the date the financial statements were issued].” This disclosure approach uses the definition of “Substantial Doubt about an Entity’s Ability to Continue as a Going Concern” by indicating that cash flows would not be sufficient for the Company to meet its obligations for a period 12 months following the issuance of the financial statement. By not using the words “substantial doubt” and “going concern” here, the focus would appear to be redirected toward management’s plans.

**Conclusion**

The new going concern standard creates new disclosure requirements for preparers in cases where substantial doubt about the entity’s ability to continue as a going concern is alleviated by management’s plans. While these new disclosure requirements are similar to existing guidance on disclosure in auditing standards, the new going concern standard has direct disclosure requirements for the preparer which caused changes in disclosures in the notes to the financial statements we reviewed. Our initial review of disclosures where substantial doubt has been alleviated indicated that, when explicit statements are
made that substantial doubt was initially raised, some users ignore that substantial doubt was alleviated by management's plans. Companies will need to carefully craft disclosures when substantial doubt was alleviated in order to comply with disclosure requirements in a transparent manner without inadvertently causing users to presume that substantial doubt exists. For the new disclosures when substantial doubt is alleviated, words may speak louder than actions.