FASB Project Update

Disclosures about Risks and Uncertainties and the Liquidation Basis of Accounting (Formerly Going Concern)

Last updated on February 24, 2012. Please refer to the Current Technical Plan for information about the expected release dates of exposure documents and final standards.

(Updated sections are indicated with an asterisk *)

The staff has prepared this summary of Board decisions for information purposes only. Those Board decisions are tentative and do not change current accounting. Official positions of the FASB are determined only after extensive due process and deliberations.

***Project Objective**

The objective of this project is to determine how and when an entity should apply the liquidation basis of accounting.

Due Process Documents

On October 9, 2008, the Board issued a proposed Statement, *Going Concern*, for a 60-day comment period. The comment period ended on December 8, 2008.

Exposure Draft

Comment Letters

Comment Letter Summary

***Decisions Reached at Last Meeting (February 15, 2012)**

The Board affirmed its previous tentative decisions about when and how an entity should apply the liquidation basis of accounting. Additionally, the Board affirmed that under the liquidation basis of accounting, an entity should prepare, at a minimum, a statement of net assets in liquidation and a statement of changes in net assets in liquidation and that it should disclose all measurement bases and significant assumptions.

The Board directed the staff to draft a proposed Accounting Standards Update for vote by written ballot. The Board decided that the comment period for the proposed Update would be 90 days. Based on the Board's previous decisions, the proposed guidance would be effective as of the beginning of the period of adoption and would be applied prospectively.

***Summary of Decisions Reached to Date (As of February 15, 2012)**

The Board has reached the following decisions based upon discussions surrounding issues raised in comment letters received on the proposed FASB Statement, Risks and Uncertainties, and redeliberations at subsequent Board meetings.

Project Objective

The objective of this project is to determine how and when an entity should apply the liquidation basis of accounting.

Previously, an objective of this project had been to determine whether GAAP should require management of an entity to assess whether that entity will be able to continue as a going concern on a look-forward basis, and if so, the manner by which an entity should conduct the assessment and the content of the disclosures that would be required should management conclude unfavorably. However, the Board decided not to require that management of an entity assess whether there is substantial doubt about the entity's ability to continue as a going concern. A majority of Board members observed that such a requirement would be difficult to apply and that users of financial statements would benefit to a greater extent from ongoing disclosures about risks and uncertainties than they would from disclosures that would be made only after management concludes that there is substantial doubt about an entity's ability to continue as a going concern.

After deciding that management of an entity should not be required to assess whether that entity will be able to continue as a going concern, the Board considered shifting the objective of this project to focus on expanded disclosures about risks and uncertainties. However, the Board decided that improving disclosures that would serve as an early warning of an entity's potential inability to continue as a going concern *would not* be an objective of this project. That decision was in part due to the Board recently deciding to add incremental disclosures about liquidity risk in the separate project on accounting for financial instruments.

Limited Life Entities

The Board decided to revise the definition of *imminent* to include a requirement that liquidation is imminent when significant management decisions are limited to those necessary to carry out the plan of liquidation, with other decision making being relatively insignificant.

Liquidation Basis of Accounting

The Board decided to provide the following principles-based guidance on the adoption and application of the liquidation basis of accounting.

1. An entity should prepare financial statements on the going concern basis unless liquidation is imminent. Liquidation is imminent when significant management decisions are limited to those necessary to carry out a plan of liquidation and either (a) the plan of liquidation has been approved by the entity's owners, or (b) the plan to liquidate is being imposed by other forces and it is remote that the entity will become a going concern in the future. If liquidation is imminent, an entity's financial statements shall be prepared on a liquidation basis.

2. Liquidation basis financial statements should reflect relevant information about the value of an entity's resources and obligations in liquidation. Such financial statements should consist of a "Statement of Net Assets in Liquidation" and a "Statement of Changes in Net Assets in Liquidation." An entity that applies the liquidation basis of accounting should measure the items in its financial statements to reflect the actual amount of cash that the entity expects to collect or pay during the course of liquidation. This measurement should include, but is not limited to, recognition of (a) costs to dispose of assets or liabilities and (b) expense and income to be incurred through liquidation. The measurement bases and significant assumptions used should be disclosed.

At the February 15, 2012 Board Meeting, the Board affirmed these tentative decisions.

Transition

Based on the Board's previous decisions, the proposed guidance would be effective as of the beginning of the period of adoption and would be applied prospectively.

Comment Period

The Board decided that the comment period for the proposed Update would be 90 days.

Superseded Decisions

Early Warning Disclosures

The Board previously decided to require certain early warning disclosures when management, applying commercially reasonable business judgment, is aware of conditions and events that indicate, based on current facts and circumstances, that it is reasonably foreseeable that an entity may not be able to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of business, restructuring of debt, issuance of equity, externally or internally forced revisions of its operations, or similar actions. Subsequently, the

Board decided not to pursue these disclosures as part of this project because of questions about their incremental value over and above the liquidity risk disclosures that are being proposed in the financial instrument project.

Subsequent Events

If management were required to make a going concern assessment, the Board decided that management would update its assessment if a subsequent event that significantly affects the assessment occurs before the financial statements are issued or are available to be issued. The time horizon for the reassessment would be extended to include the foreseeable future beginning as of the date of the subsequent event. The determination of whether the related disclosures are required would be based on that updated assessment. The entity would still be required to apply the guidance in Topic 855, Subsequent Events, for recognition and disclosure of specified subsequent events.

Time Horizon

If management were required to make a going concern assessment, the Board decided that management should take into account available information about the foreseeable future, which is generally, but not limited to, 12 months from the end of the reporting period. Certain events that are expected to occur or are reasonably foreseeable beyond 12 months that would materially affect the assessment are considered part of the foreseeable future. The time frame beyond 12 months is limited to a practical amount of time thereafter in which significant events or conditions that may affect the evaluation can be identified. The Board decided to use this time horizon because it avoids the inherent problems that a bright-line time horizon would create and requires management to consider events or conditions occurring beyond the one-year time horizon that are significant and most likely would have to be disclosed. The Board does not intend for the assessment of the period beyond a year to be open ended or an indefinite period.

*Next Steps

The Board directed the staff to draft a proposed Accounting Standards Update for vote by written ballot. The Board decided that the comment period for the proposed Update would be 90 days.

*Board/Other Public Meeting Dates

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final standard.

The following are links to the minutes for each meeting.

*February 15, 2012	**Board Meeting**—Liquidation Basis of Accounting
January 11, 2012	**Board Meeting**—Project Scope and Objective

October 26, 2011	**Board Meeting**—Project Scope and Objectives
December 1, 2010	**Board Meeting**—Subsequent Events and Limited Life Entities
November 10, 2010	**Board Meeting**—Issues Raised by External Reviewers
March 31, 2010	**Board Meeting**—Disclosure Threshold and Liquidation Basis
January 13, 2010	**Board Meeting**—Project Scope
June 3, 2009	**Board Meeting**—Analysis of Additional Constituent Outreach
February 18, 2009	**Board Meeting**—Comment Letter Discussion
August 27, 2008	**Board Meeting**—Codification Discussion
September 19, 2007	**Board Meeting**—Removal from Board agenda
May 30, 2007	**Board Meeting**—Add Project to Board agenda

*Background Information

The U.S. guidance for when and how to apply the liquidation basis of accounting is located in the AICPA Statement on Auditing Standards No. 1, *Codification of Auditing Standards and Procedures*, Section 9508, "Reports on Audited Financial Statements: Auditing Interpretations of Section 508," and states that a liquidation basis of accounting may be considered GAAP for entities in liquidation or for which liquidation appears imminent. The objective of the liquidation basis of accounting is to provide financial statement users with relevant information about an entity's resources and obligations by measuring and presenting assets and liabilities in the entity's financial statements at the estimated amount of cash the entity expects to collect or the amount of cash the entity expects to pay to settle its obligations during the course of liquidation. Some constituents have expressed a need for accounting literature in this area because there currently may be diversity in practice.

Originally, the Board undertook this project to incorporate AICPA Statement on Auditing Standards No. 1, *Codification of Auditing Standards and Procedures*, Section 341, "The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern," (AU Section 341) into GAAP. AU Section 341 states that the auditor has a responsibility to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, not to exceed one year beyond the date of the financial statements being audited.

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