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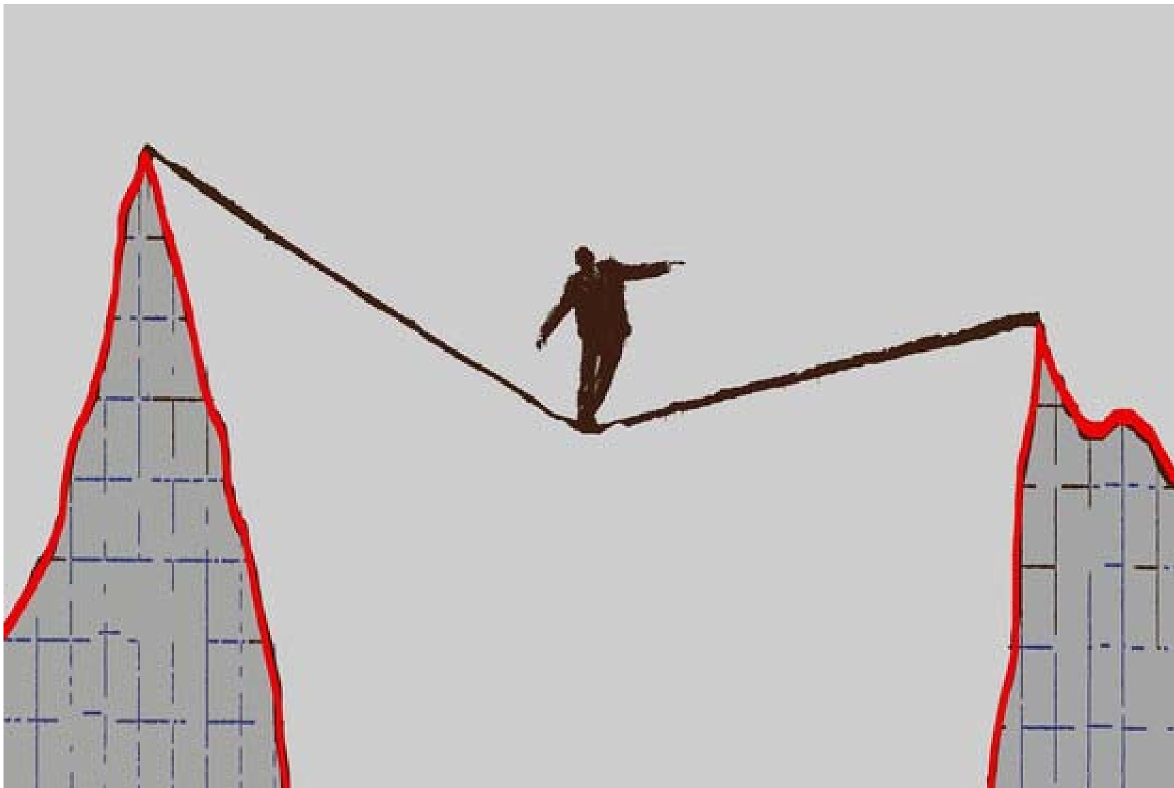
Executive Responsibility For 'Going Concern' Disclosures Increases



Corporate managers will have to make more uniform disclosures when there is substantial doubt about their business' ability to survive, the Financial Accounting Standards Board said Wednesday.

The FASB updated U.S. accounting rules, effective by the end of 2016, to define management's responsibility to evaluate whether their business will be able to continue operating as a "going concern," and make relevant disclosures in financial statement footnotes. Previously, there were no specific rules under U.S. Generally Accepted Accounting Principles and disclosures were largely up to auditors. Corporate executives had the option to make any voluntary disclosures they felt relevant.

Investors, however, have grown frustrated with a lack of going concern opinions during the financial crisis that failed to warn them of impending bankruptcies.

The FASB first issued a proposal at the peak of the financial crisis in 2008, but debate and revisions delayed the final standard, which didn't go up for a vote until May.

Supporters of the changes have argued that corporate managers have better information about a company's ability to continue financing their operations than auditors. The updated rule will force executives to disclose serious risks even if management has a credible plan to alleviate them, for example.

Information currently disclosed by companies can vary significantly. Only about 40% of companies that filed for bankruptcy in the past two decades have explicitly disclosed the possibility that they could cease to operate before running into trouble, according to a study this month from Duke University's Fuqua School of Business.

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