



## COVID-19 and going concern risk: What CFOs should be thinking about

For many companies, demonstrating the ability to continue as a going concern has not historically been a major burden. In 2017, the Financial Accounting Standards Board (FASB) issued ASU 2014-15, stipulating that it is a company's responsibility, not solely its auditor's, to assess their ability to continue as a going concern. Even so, a quick look at sales projections, fixed costs, and financial obligations was often confirmation enough that a business could confidently say it would still be able to meet its obligations as they become due over the next 12 months. For many CFOs and their teams, it was one of the simpler steps of the annual financial statements.

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### COVID-19 has disrupted this process.

The economic impacts of the global pandemic have been massive. Consumers have stayed home. Supply chains have been interrupted. Entire industries have been shut down. Companies that have never before struggled to demonstrate their financial health are taking a hard look at the possibility of expressing doubt about their future. What has happened was unpredictable, and what's ahead is uncertain.

As a CFO, disclosing doubt about your company's ability to continue as a going concern is an action you hope you never have to take. But it's an action that, for most companies, is more likely today than it was a year or two ago. If mulling such a move, you certainly aren't alone.

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### Expressing doubt about your ability to continue as a going concern could become a self-fulfilling prophecy.

No CFO wants the company's financial statements to express uncertainty about its ability to meet its obligations in the coming year. Going concern risk is often interpreted by the market as a negative signal. It can make stakeholders more wary and willing investors more scarce. Even if things were going well right before the pandemic, and the forces behind your doubt are transparent and widely applicable, there may still be a shift in the perceptions of key stakeholders.

Whether public or private, a company that declares doubt about its ability to continue as a going concern may find monetary and human capital resources harder to come by.

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## The consequences of not disclosing doubt when it exists can be severe.

Evaluating your ability to continue as a going concern is part of adhering to US Generally Accepted Accounting Principles (GAAP). Not disclosing doubt when you should can have serious consequences and even result in litigation.

If you conclude doubt about your company’s ability to continue as a going concern exists, you don’t get to choose whether to disclose it. But you do have a choice in how you handle the run-up to and execution of that disclosure.

## Communication with stakeholders is essential.

Engaging your audit committee, board of directors, and other key figures early and often is an important component of the CFO’s role during that run-up to disclosure. If you have doubts about your company’s ability to continue as a going concern for the next year due to COVID-19, these stakeholders need to be informed as soon as possible to help enable productive discussions and avoid surprises.

Explaining the consequences of not disclosing doubt will help achieve consensus about what needs to happen moving forward. This collaborative spirit may come in handy when facing the murkiness that COVID-19 presents and deciding whether or not to disclose doubt over your company’s ability to continue as a going concern.

## Identifying what’s known and knowable is a challenge in the time of COVID-19.

Determining your company’s ability to continue as a going concern is ultimately about its ability to meet obligations as they come due based on what’s known and knowable. But the economic environment during COVID-19 has been defined by its uncertainty. It’s difficult for CFOs to know what the situation will be next week, let alone next year. And progress toward normalcy isn’t linear. Things may be trending well one day, but an unexpected setback in the fight against the virus can reverse that trend.

One thing that can be truly known during COVID-19 is that the pandemic’s future impacts are unknowable. That’s why it’s especially critical right now for companies to focus on evaluating whether there is substantial doubt about their ability to continue as a going concern. And it’s why their plans for mitigation of potential doubt need to be robust and well-developed.

## A range of mitigation plans may need to be considered.

When a company discloses doubt about its ability to continue as a going concern in its financial statements, it may include a mitigation plan in its disclosures. That plan would detail how the company will try to address the sources of doubt and meet its obligations in the ensuing year. Typically, there might be one or two issues causing doubt (such as a debt covenant that, if violated, accelerates the due date of long-term debt). Mitigation plans would aim to address those issues.

But the uncertainty of COVID-19 and its economic impact has created the need for robust mitigation plans that address many hypothetical situations, and can be implemented if necessary. The CFO of a company headed for a disclosure of doubt needs to make sure their team has developed as fully as possible this range of potential mitigation plans. Doing so can show that, despite doubt over your ability to continue as a going concern during the next 12 months, your company has been responsible and thorough in its mitigation planning.



## Consider this your wake-up call.

For many companies, COVID-19 has changed the determination of going concern risk from essentially a check-the-box exercise to a primary CFO focus.

With more and more companies giving additional thought to a disclosure of doubt over their next 12 months, CFOs need to understand the stakes, communicate effectively with key stakeholders, and lead their team through an informed and responsible determination and disclosure process.

Because when it comes to evaluating doubt about your entity's ability to continue as a going concern, going through the motions won't cut it.

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## Let's talk

Is your company facing the prospect of disclosing doubt about its ability to continue as a going concern for the first time? Deloitte can help you determine if a disclosure is necessary and help you provide it in a transparent and responsible way. Learn how we can help you navigate this potentially unfamiliar territory.

## Contact us



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