

2012-210 Comment Letter No. 7

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September 28, 2012

SENT VIA EMAIL

Ms. Susan M. Cosper, Technical Director Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, CT 06856-5116

File Reference: 2012-210, Presentation of Financial Statements (Topic 205)

Dear Ms. Cosper,

Moss Adams LLP is pleased to comment on the proposed Accounting Standards Update, 2012-210, *Presentation of Financial Statements* (Topic 205) (the "proposed ASU").

Moss Adams LLP is the largest accounting and consulting firm headquartered in the Western United States, with a staff of over 1,800, including more than 230 partners. Founded in 1913, the firm serves public and private middle-market businesses, not-for-profit and governmental organizations.

Our responses and related comments to the specific questions included within the Exposure Draft are contained in Attachment 1 to this letter. Overall, while we appreciate the Board's efforts to add guidance in this area as a response to diversity in practice, there are a number of operational and implementation issues that we believe should be clarified or addressed prior to finalizing a new standard. Our responses to the questions and some additional observations are further described in Attachment 1.

Moss Adams appreciates the opportunity to comment on the proposed ASU. We would be pleased to discuss our comments with the Board members or the FASB staff at your convenience. If you would like to discuss our comments or have any questions, please contact John Donohue in our Professional Practice Group at 503-478-2157.

Yours truly,

Moss Adams LLP

Moss Adams LLP

Enclosure



ATTACHMENT 1

The following are responses to the questions in the proposed ASU:

Question 1: The proposed guidance would require an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent, as defined in the proposed guidance. Is the proposed guidance about when an entity should apply the liquidation basis of accounting appropriate and operational? If not, why?

We have the following comments relating to the appropriateness and operationality of the proposed guidance.

Definitions and Scope

We note that the proposed master glossary definition of "liquidation" would state:

Liquidation: The process by which an entity converts its assets to cash or other assets and partially or fully settles its obligations with creditors in anticipation of the entity ceasing its operations. Any remaining cash or other assets are distributed to the entity's owners. Liquidation may be compulsory or voluntary. Dissolutions via acquisition or merger do not qualify as liquidations.

Based on this proposed definition, dissolutions via acquisition or merger would not qualify as liquidations. Given the expansive definition of a business in ASC Topic 805, *Business Combinations*, and its inclusion of groups of assets that meet the definition of a business within its scope, this exclusion, without clarification, could limit the situations for which the liquidation basis of accounting may be applied. For example, a technology company decides it will cease operations and a wind-down specialist is engaged to sell the main, unrecognized intellectual property asset and to settle liabilities. From the perspective of the technology company, it is liquidating. Based on the nature of the intellectual property, however, it may be that a buyer of that asset would conclude it is acquiring a business. A similar situation could occur if the asset is a leased commercial building and the reporting entity's assets are a portfolio of commercial real estate to be disposed of. In either case, we believe the Board's intent is that, presuming other requirements are met, that the reporting entity would apply liquidation-basis accounting. We request that the Board consider this input and clarify the guidance.

Also, proposed paragraph 205-30-15-1 indicates that the proposed guidance would apply to all entities. We identified the following comments or concerns:

- It is unclear how the guidance would be applied to a subsidiary in certain circumstances. For
 example, does it need to be stated that stand-alone financial reporting for a subsidiary may be in
 scope, even if the parent company is not in scope? The proposed ASU does not address any
 parent-subsidiary considerations, which may lead to diversity in practice.
- The definition of liquidation appears to be unclear as to whether liquidation applies only to legal entities, or if a more inclusive scoping (i.e. reporting entities or business) should be applied.

Recognition

Regarding the recognition portion of the proposed guidance, specifically in proposed paragraph 205-30-25-3, both scenarios (a) and (b) require "a plan for liquidation." There is no universal standard about what constitutes a "plan for liquidation." We note that other GAAP, for example ASC Topic 420, Exit or Disposal Cost Obligations, specifies conditions to be met in order for a plan to be substantive. The Board may want to consider whether the guidance should include increased specification regarding the necessary elements of a plan of liquidation. Currently (a) and (b) focus on the plan being approved (or imposed); other significant elements of a plan appear to be the expected timing and the expected actions.

Proposed paragraph 205-30-25-3 describes a different path for determining if a plan for liquidation is imminent for entities with limited lives. We agree that those types of entities may need specialized guidance; however, we found the guidance, as drafted, to be very difficult to understand. We found that illustrative examples 2 and 3 helped us to understand how the Board intends the guidance to be applied, but, we suggest that the recognition guidance itself be clearer. Absent the examples, the recognition guidance was not clear enough to be accurately applied. An example of a specific concern we have with proposed paragraph 205-30-25-3 is that for "limited-life entities," liquidation could be deemed imminent (and liquation-basis reporting required) if significant management decisions about furthering the ongoing operations of the entity (a) have ceased or (b) they are substantially limited to those necessary to carry out a plan for liquidation other than the plan specified at inception. To state this another way, we might say that liquidation could be deemed not imminent if significant management decisions about furthering the ongoing operations of the entity (a) have not ceased or (b) they are not substantially limited to those necessary to carry out a plan for liquidation other than the plan specified at inception. We are concerned that this guidance is challenging to practically apply. See our response to Question 4 for related discussion.

Conceptually, we are also concerned that the exception for limited-life entities is too inconsistent with the principle of the proposed standard. Proposed paragraph 205-30-25-1 states that liquidation-basis financial statements are prepared when liquidation is imminent; however, proposed paragraph 205-30-55-4 contradicts this principle by illustrating an example where liquidation-basis financial statements would never be prepared, even upon liquidation. Our preference is to retain the principle in 25-1 and modify how the remaining guidance would be applied to the fact pattern in 55-4. However, if the Board retains the guidance in 55-4, we recommend that another triggering event, such as a bright-line time period, be introduced so that liquidation-basis statements would be prepared at some point in the fact pattern illustrated by 55-4.

Question 2: The proposed guidance includes a principle for measuring assets and liabilities, as well as related items of income and expense, using the liquidation basis of accounting. The proposed guidance would require supplemental disclosures about the methods and assumptions used in arriving at those measurements. This guidance is intentionally nonprescriptive in light of the specialized nature of liquidation basis financial statements and the impracticability of providing prescriptive guidance for the myriad of circumstances to which it might apply. Is the proposed guidance on how to prepare financial statements using the liquidation basis sufficient and operational? If not, why?

The Exposure Draft provides limited guidance for the presentation of specific statements and the footnote disclosures to be included in financial statements presented on the liquidation basis of accounting. We have the following questions or concerns:

- a. The proposed ASU indicates which statements must be included in the financial statements when preparing statements using the liquidation basis of accounting. However, the proposed ASU does not discuss how the liquidation-basis statements should interact with the going-concern-basis financial statements. For example, if an entity were to enter liquidation mid-year, would part-year income and cash flow statements be prepared? Is the liquidation-basis entity considered a "new entity" for reporting purposes and separated by a black line? Is a balance sheet on the date the liquidation basis of accounting becomes applicable required? Should it be?
- b. The proposed ASU outlines certain required disclosures, which are incremental to "all other disclosures required by U.S. GAAP" (ASC proposed paragraph 205-30-50-1). We observe that this will require many disclosures for amounts that are measured using a new basis of accounting (e.g. the liquidation basis), and it is unclear how the disclosures should be applied. For example, if an entity would normally prepare a fair value footnote, none of the

items on its balance sheet are measured at fair value when the liquidation basis of accounting applies. Should the footnote disclosure show an adjustment from the going concern basis to the liquidation basis? If so, that would require an entity to keep two sets of records (going concern basis and liquidation basis).

- c. It appears that a technical correction should be made in proposed paragraph 205-30-50-1, as the items of income or expense would be accrued in the statement of net assets in liquidation.
- d. We note a reference in proposed paragraph 205-30-50-1d that refers to discount rates. The requirement or acceptability of discounting is not otherwise addressed in the proposed ASU, and may contradict the measurement principle of "expects to collect or pay."
- e. We note that proposed paragraph 205-30-30-3 describes cost accrual when a company is liquidating. In ASC Topic 420, *Exit or Disposal Cost Obligations*, there is guidance on the timing of accruals for exit and termination activities. We suggest the scope of that guidance be clarified to indicate it does not apply to companies that are reporting on the liquidation basis.

Finally, we note that proposed paragraph 205-30-30-1 includes the word "expected." The term "expected" has significant meaning in ASC Topic 820, *Fair Value Measurement*, and we are concerned that this meaning may not be appropriate in the context of measurement on the liquidation basis. The Board may want to consider if alternative wording would accomplish its objective while reducing the risk of inappropriately applying the concepts in ASC Topic 820 to the liquidation basis of accounting.

Question 3: The proposed guidance would apply to all entities that prepare financial statements in accordance with U.S. GAAP. Should the proposed guidance differ for any entities (for example, investment companies) whose primary measurement attribute is fair value? If so, why?

We do not believe different guidance for any type of entity, including those that report at fair value, is necessary.

Question 4: The proposed guidance would apply to a limited-life entity when significant management activities are limited to those necessary to carry out a plan for liquidation other than that which was specified in the entity's governing documents. Indicators have been provided to help an entity determine whether a plan for liquidation differs from that which was specified in the governing documents. Do you agree with the proposed guidance about when a limited-life entity should use the liquidation basis of accounting? If not, why?

First, in our *recognition* discussion above under Question 1, we question the operationality of the proposed guidance for limited-life entities. In addition, we believe that the financial statement users of limited-life entities where liquidation is imminent, even if liquidation is in accordance with the limited-life entity's governance documents, may prefer to receive liquidation-basis financial statements. We consider the principle articulated in proposed paragraph 205-30-25-1 to be appropriate for limited-life entities, and believe these entities should prepare liquidation-basis financial statements when liquidation is imminent. We appreciate the need for some specialized guidance to ensure that limited-life entities do not prepare liquidation-basis financial statements at inception, but the proposed guidance appears to go beyond that need. The Board should consider further outreach to determine if all limited-life entities should apply the liquidation basis of accounting when liquidation is imminent.

Relating to this matter, we note that existing disclosure requirements would not necessarily require significant, explicit disclosures about the plan of a limited-life entity. Therefore, from the standpoint of financial statement users, they may not have a full picture of the company's circumstance.

Further, we note that existing disclosure requirements do not require significant, explicit disclosures about the plan of liquidation, if any, for a limited-life entity. If the Board retains the proposed guidance for a limited-life entity that is liquidating in accordance with its governance documents, the Board should consider adding a disclosure requirement for these entities to mitigate the risks that financial statement users are not aware of the entity's plan of liquidation.

Question 5: The proposed guidance would apply to public and nonpublic entities (that is, private companies and not-for-profit organizations). Should any of the proposed amendments be different for nonpublic entities? If so, please identify those proposed amendments and describe how and why you think they should be different.

In considering question 5, we gave particular consideration to the proposed disclosures (205-30-50-1). Overall, we find the proposed disclosures to be balanced and scalable. Accordingly, we do not believe that any of the proposed amendments should be different for nonpublic entities.

For public companies, it may be appropriate to consider adding a discussion about how liquidation-basis reporting would interact with other public company reporting requirements, such as Regulation S-X and existing SEC Staff guidance.

Additional Comments: Finally, the proposed ASU does not appear to contemplate a reporting entity exiting the liquidation basis of accounting and returning to a "going concern" basis of accounting. While we understand the Board has placed a high threshold on entering the liquidation basis of accounting, there could be circumstances where a plan to liquidate may be subsequently changed or reversed. We are concerned that if the Board does not provide guidance on the resumption of going concern accounting, that significant uncertainty and diversity in application will result in practice. Additional guidance could address when an entity would report after emerging from the liquidation basis, the reporting model to follow (i.e. fresh-start reporting), and how to present meaningful comparative financial statements and footnotes.