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Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
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Via email to *director@fasb.org*

Re: **File Reference No. 2012-210,** Proposed Accounting Standards Update (ASU), "Presentation of Financial Statements (Topic 205): The Liquidation Basis of Accounting"

Dear Technical Director:

We appreciate the opportunity to comment on Financial Accounting Standards Board's (FASB) Proposed ASU, *Presentation of Financial Statements (Topic 205): The Liquidation Basis of Accounting.* We are supportive of the FASB's efforts to address this issue as minimal guidance currently exists as to when it is appropriate to apply, and how to apply the liquidation basis of accounting. In this regard, we have included our responses to the "Questions for Respondents" posed in the proposed ASU in the following paragraphs.

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 believe that the proposed guidance requiring the application of the liquidation basis of accounting when liquidation is imminent is both appropriate and operational. We agree that the threshold should be a high standard as the proposed guidance requires the application of a change in the basis of accounting from that of the assumption of a going concern to that of an entity in liquidation.

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?

We do not believe that the proposed guidance is sufficient or operational and in some cases appears to be inconsistent with existing U.S. GAAP. Specifically, we recommend that the FASB consider existing guidance contained in Concepts Statement No. 6, *Elements of Financial Statements,* Topic 450, *Contingencies*, Topic 420, *Exit or Disposal Cost Obligations,* and other existing guidance to determine the extent to which the proposed guidance is not consistent with U.S. GAAP as currently presented in the Codification. For example, the proposed guidance would require an entity in liquidation to accrue the costs it expects to incur during liquidation at the amounts that it expects to expend. It is not clear how the accrual of such costs meets the criteria for liability recognition. In addition, some costs related to exit or disposal activities, such as contract termination costs are currently required to be recognized at fair value which differs from what is contained in the proposed guidance. It is also not clear why an entity in liquidation would potentially recognize income in a period before they are earned as is proposed in paragraph 205-30-303-3. Such recognition would appear to contradict FASB Concepts Statement 5, *Recognition and Measurement in Financial Statements of Business Enterprises*, which provides that revenue should be recognized when it is both earned and realized or realizable.

As proposed, 205-30-25-4 provides that liquidation basis accounting should be applied prospectively from the day an entity meets the conditions of paragraph 205-30-25-1. The proposed ASU is silent with respect to the accounting and reporting for entities that for some reason or another abandon or otherwise emerge from a plan of liquidation. In addition, it is not clear if financial statements for a period for which the liquidation basis of accounting was applied should be presented with financial statements for a period for which the liquidation basis of accounting was not applied. We have noted that AICPA Technical Q&A, Section 9110, .14 states "The financial statements of entities adopting a plan of liquidation may be presented with financial statements of a prior period that were prepared on a going concern assumption". We suggest that the FASB clarify its position with respect to this presentation matter in the final ASU as AICPA Technical Q&As are not considered authoritative U.S. GAAP.

Further, we believe that the significance of the assumptions that will have to be made by management to determine the liquidation period and the recognition of related activity in the financial statements will prove to be difficult not only from a preparer's perspective but also from an auditor's. The time frames and methods used to dispose of and settle assets and liabilities will be based heavily on management's own expectations. In many cases it will be difficult to corroborate such expectation with independent 3rd party data. In addition, as periods over which liquidation are expected to occur extend, the expectations become increasingly unreliable and more difficult to audit.

Lastly, current GAAP provides for benefit plans to prepare their financial statements using the liquidation basis of accounting, when the decision to liquidate is made before the end of the plan year. However, current GAAP does not describe how to measure a plan's assets and liabilities, therefore many have defaulted to fair values or actuarial determined amounts for a defined benefit plan. The proposed ASU does not provide guidance to address some of the unique accounting for benefit plans; accordingly it is not clear how a benefit plan would apply the new guidance.

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 agree with the proposed guidance in that it would apply to all entities that prepare financial statements in accordance with U.S. GAAP. We do not believe that the proposed guidance should be applied differently to any entities, including those whose primary measurement attribute is fair value. Fair value is defined in the FASB Codification as "The amount at which an asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale".

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?

We do not understand why the application of the liquidation basis of accounting would differ between those entities whose lives have been limited and entities which were not created to have limited-lives. For example, under the proposed guidance, two investment companies, one having a limited-life and the other set-up to operate indefinitely would report on a differing basis once the criteria for liquidation were met. The investment company with a limited-life would continue to recognize its assets and liabilities at fair value and its revenues and expenses in accordance with U.S. GAAP whereas the other investment company would recognize is assets and liabilities at amounts they expect to collect or expend during the course of liquidation and would accrue the costs that it expects to incur and the revenue it expects to earn during the expected duration of the liquidation. As a result, investors or other users of financial statements in each situation would be presented with differing pictures of the financial position of each entity although each entity is in the process of ceasing operations and disposing of and settling their assets and liabilities.

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.

We do not believe that any of the proposed amendments should be different for nonpublic entities.

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Thank you for the opportunity to provide our comments on the Proposal. Should you have any questions please contact James A. Dolinar.

Regards,

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