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Technical Director
File Reference No. 2012-210
Financial Accounting Standards Board
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PricewaterhouseCoopers LLP appreciates the opportunity to comment on the FASB’s proposed accounting standards update, The Liquidation Basis of Accounting.

While the application of the liquidation basis of accounting occurs infrequently in our practice, from our experience this is not an area where we see many issues. However, we have suggested enhancements to the proposed guidance in the event that others believe it will be helpful to preparers and financial statement users and will improve consistency as to when and how to prepare financial statements using the liquidation basis of accounting.

We recommend the guidance in the Liquidation Basis Subtopic not be applicable to investment companies and employee benefit plans. We believe the significant change in measurement and presentation for these entities would not benefit users of their financial statements, for the reasons discussed in our response to Question 3.

In Appendix A, we have provided our responses to the questions for respondents. The responses include our recommendations to help clarify certain elements of the guidance.

Please contact Lawrence Dodyk at (973) 236-7213 or Cody Smith at (973) 236-4299 if you have any questions regarding our comments.

Sincerely,

PricewaterhouseCoopers LLP
Appendix A - Responses to Questions and Other Recommendations

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?

The proposed guidance states that liquidation is imminent when a plan for liquidation has been approved by the person or persons with the authority to make the plan effective or a plan for liquidation is imposed by other forces. We believe this definition should be more robust to justify preparing financial statements on a different basis than on a going concern basis. We recommend the Board consider the following enhancements to the guidance.

First, the definition should explicitly consider the nature and significance of management's decisions about liquidation of the entity. This should include consideration of when management's decisions about furthering the ongoing operations of the entity are not expected to be significant and when its decisions are limited to those necessary to carry out a plan for liquidation. Until then, the entity should continue to prepare financial statements on a going concern basis with disclosure regarding management's intent to liquidate the entity.

Second, for liquidation to be imminent, we believe there should be a relatively short period of time between the date liquidation is considered imminent and when the entity is substantially liquidated. If that time period is not relatively short, our experience is that significant management decisions about furthering the ongoing operations of the entity generally have not ceased. This calls into question whether liquidation is imminent. Thus, as this time period increases, the likelihood that liquidation is imminent decreases.

Clarifying the guidance in this manner may help to reduce measurement issues that could arise when the wind down will occur over an extended period of time, such as issues related to the accrual of income, operating expenses, and liquidation costs. For example, it may take a real estate investment trust several years to complete a liquidation after the decision to liquidate has been made. That time may be needed to allow for the orderly disposition of assets and to maximize value during the wind down period, particularly if holdings include illiquid assets. In this instance, and in other instances where operations will continue over a lengthy period, it may be more appropriate to continue to present going concern basis financial statements until the entity is clearly in the liquidation process.

Finally, we believe the definition of imminent should consider the impact of regulatory approvals that may be required before an entity can be liquidated. For example, an employee benefit plan that has been approved for liquidation by its governing body is often required to obtain approval from certain regulatory agencies. In this situation, we would expect that liquidation basis of accounting would not be adopted until after such regulatory approvals are obtained, if such approvals are not considered perfunctory.
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 recommend the guidance be clarified, as noted below, with respect to the measurement of assets and liabilities and the accrual of income and expenses during the period of liquidation.

BC9 specifies that the measurement of assets and liabilities under the liquidation basis of accounting differs from fair value because it does not assume that the dispositions would occur in an orderly manner. We recommend the proposed standard include this guidance for entities that must measure their assets and liabilities assuming a distressed sale. However, a distressed sale generally should not be assumed for certain entities, such as investment companies or employee benefit plans, that have the ability to wind down and dispose of assets over an extended period of time, even if the wind down period is not consistent with the entity's original term. For such entities, we believe that the measurement of assets and liabilities is usually consistent with fair value as defined by ASC 820. We also recommend that the guidance clarify the treatment of transaction costs when measuring assets and liabilities under the liquidation basis.

The proposed guidance in ASC 205-30-30-1 indicates that liabilities should be measured to reflect the estimated amount of cash that an entity expects to pay. We recommend the Board clarify whether and when liabilities that are subject to negotiation and settlement should be reflected in the liquidation basis of accounting financial statements at an amount that is less than the amount contractually due. This would be particularly helpful when contractual liabilities exceed the net realizable value of the assets of the entity.

Further, the proposed guidance in ASC 205-30-05-3 states that the accounting and reporting guidance in this subtopic is incremental to guidance that otherwise applies to an entity. A conflict may arise when an entity applies existing U.S. GAAP for measuring assets and liabilities, such as ASC 420 for lease contract termination costs, ASC 420, 712, or 715 for restructuring costs, ASC 450 for contingencies, and ASC 740 for liabilities for uncertain tax positions, which may require the recognition of liabilities that management may not expect to pay or may settle under different terms when the entity is in liquidation. Without additional guidance, there could be confusion about the recognition criteria in the proposed ASU compared to GAAP for going concern entities.
The guidance in ASC 205-30-50-1 states that, in addition to all other disclosures required by U.S. GAAP, an entity should comply with the specific disclosure requirements in the proposal when it applies the liquidation basis of accounting. We assume that an entity would not need to present the required fair value disclosures in ASC 820, since the entity no longer uses ASC 820 as a basis for determining fair value in liquidation. Further, it would seem that investment companies would not need to present a schedule of investments and financial highlights disclosure under the proposed guidance. And, it appears that employee benefit plans that follow the proposed guidance would not present a statement of accumulated benefits or a liability within the statement of net assets available for benefits. We recommend the Board clarify this. Without that clarification there could be confusion about the disclosure requirements for certain entities upon the adoption of the liquidation basis of accounting, as well as the disclosure requirements in the proposed guidance compared to GAAP for going concern entities.

The proposed guidance also implies that a preparer would accrue all estimated income and expenses associated with ongoing operations that may continue for some future period at the time the entity meets the definition of imminent. Where management decisions allow for various courses of action or the liquidation period may extend over a longer period of time, the ability to estimate income and expenses from ongoing operations will be complex and require significant judgment. These concerns may be addressed somewhat if the definition of imminent is revised as discussed in our response to Question 1.

Prior to the adoption of the liquidation basis of accounting, an entity will be presenting going concern financial statements. The Board should consider clarifying whether a predecessor/successor presentation should be displayed presenting going concern basis financial statements for the period(s) leading up to the adoption of the liquidation basis (predecessor period) and liquidation basis financial statements for the period(s) after adoption (successor period) or whether separate financial statements should be presented. We are supportive of current practice today, in which predecessor, going concern financial statements are presented up to the date of adoption of the liquidation basis of accounting, separated from the liquidation basis financial statements by a black line.

**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 recommend that investment companies and employee benefit plans be excluded from the scope of the proposed guidance. As we noted in our response to Question 2, investment companies and employee benefit plans commonly have the ability to wind down over extended periods of time (e.g., several years) to allow for the orderly disposition of assets and to maximize the value of those assets upon sale. Accordingly, measurement of such assets under current practice would likely not differ significantly from fair value (other than the treatment of transaction costs).
However, recording expected future income and expense through the liquidation date could result in assets being recorded at amounts greater than their fair values, which we believe would be misleading. Further, for wind downs that are over an extended period, the accrual would be subject to significant estimation and adjustment over a lengthy period of time.

For example, an investment company may hold a debt security that trades at $1,000 (which is also its par or contractual amount) and pays interest at 5%. Liquidation is expected to occur at the end of one year. Under the proposed guidance, the security and its expected yield would be recorded at $1,050 with an immediate increase in net asset value (NAV) upon the adoption of the liquidation basis of accounting. Similarly, a defined contribution employee benefit plan that holds the same security would immediately increase its net asset value and benefit obligation by $50. We believe this presentation would be misleading and particularly troublesome for the investment company when NAV is used as a redemption price and investors can redeem in advance of a final distribution. This also would be problematic for the defined contribution plan where plan participants can redeem their account balances currently.

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?

As discussed in our response to Question 3, we recommend that investment companies and employee benefit plans be excluded from the scope of the proposed guidance. In our view, requiring those entities to apply the proposed guidance would not result in useful information.

If certain investment companies are not scoped out, we recommend the guidance be clarified to narrow the types of liquidation that would fall within its scope. We believe the scope should include only those entities that are being liquidated in a distressed manner.

For example, consider an entity with a stated 10-year life that intends to liquidate in accordance with its original plan, that is, by year 10. Consider another 10-year entity that voluntarily decides in the fifth year of its life to liquidate at the end of 8 years. Under the proposal, the two entities would report under different bases of accounting, with the second entity applying liquidation accounting in year 5. However, there may be no substantive difference between the activities of the entities, as both managements have a sufficient period of time to liquidate and would be expected to continue to actively manage investments and facilitate an orderly disposition of the entities' assets to maximize value for investors over the entities' remaining lives. Further, the guidance also implies that an entity would apply the
Liquidation basis of accounting if there is an amendment extending the life of the original 10-year entity to 12 years, if such extension was not expressly contemplated in the original organizational documents of the entity.

In addition, while open-ended investment funds are not limited-life entities as contemplated in the proposed guidance, they may liquidate their investments upon stated notice periods as outlined in their offering documents. These entities typically redeem their interests at net asset value. We recommend the guidance be clarified to also indicate that open-ended investment funds should not apply liquidation basis of accounting when investments are liquidated in an orderly manner.

If the Board decides to retain liquidation basis of accounting for limited-life entities, we recommend that less weight be placed on factors proposed in ASC 205-30-25-3(a) and (c), and more on those proposed in ASC 205-30-25-3(b). Additionally, we believe a factor should be added to consider the length of time in which a limited-life entity will be liquidated and the discretion management can exercise in this determination, considering the liquidity of the assets the entity holds.

*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 believe the proposed amendments should not be different for nonpublic entities and not-for-profit organizations.

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*Other recommendations*

(1) We recommend the proposed guidance be clarified to specify that it would only apply to the reporting entity's financial statements. That is, the guidance would not apply to a parent's consolidated financial statements when one of its subsidiaries is in liquidation.

(2) We recommend that the proposed guidance be clarified to provide that the liquidation basis of accounting would not be applied in a subsidiary's separate financial statements in cases in which a decision is made to dissolve the subsidiary through the transfer of substantially all of its assets to a parent or to another commonly-controlled entity through a common control transaction governed by ASC 805-50.

(3) We recommend that the Board clarify what "other claimants" represents in the definition of Statement of Net Assets in Liquidation and Statement of Changes in Net Assets in Liquidation. Net assets available usually represent net assets available to owners (e.g., shareholders or partners). "Other claimants" seems to imply a creditor relationship. We believe distributions to creditors would be deducted to arrive at net assets in liquidation.
(4) We recommend that the Board clarify whether the amendments would be effective for those entities already in liquidation and provide transition guidance if these amendments are intended to apply to such entities.

(5) We recommend that the guidance in ASC 205-30-25-3 be adjusted by removing "... about furthering the ongoing operations of the entity have ceased or they...". We believe that all limited-life entities will reach a point where such decisions have ceased, and it does not appear from the discussion elsewhere in the proposed guidance that entities that are liquidated in accordance with a pre-determined plan are meant to be in the scope of the guidance.

(6) In ASC 205-30-30-2, we suggest that "estimated costs to dispose of.... a liability" be clarified.

(7) In ASC 205-30-55-2, we suggest the example be expanded to include "protective or other rights" as protective rights alone may be confused with shareholder rights in the voting interest consolidation model.