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October 1, 2012

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

RE: Proposed Accounting Standards Update, The Liquidation Basis of Accounting (File Reference No. 2012-210)

Dear Technical Director:

We appreciate the opportunity to respond to the proposed Accounting Standards Update on *The Liquidation Basis of Accounting* (the "proposed ASU" or "proposed standard"). We generally support the guidance in the proposed ASU and agree that the guidance will help improve consistency in determining when and how to apply the liquidation basis of accounting. We believe there are several issues related to the guidance in the proposed ASU that the Board should clarify related to when the liquidation basis is to be applied and the measurement of assets and liabilities to promote further consistency in the application of the liquidation basis of accounting.

## When the Liquidation Basis Should Be Applied

Although we generally agree with the Board's intent regarding when the liquidation basis should be applied, we believe the Board could better describe its intent in the guidance to be included in the FASB's Accounting Standards Codification. For entities that do not have limited lives, the Board's description of when liquidation is imminent in 205-30-25-2 is based only on whether a plan has been approved by the entity or imposed on the entity. Those conditions do not include a requirement that the liquidation process has begun or is ready to begin. Although the definition of imminent would suggest the liquidation process is ready to take place, the conditions (a) and (b) of 205-30-25-2 do not include the concept that the liquidation process is ready to take place. We believe that the liquidation basis should be applied only when the liquidation process has begun or is ready to begin and significant management decisions about furthering the ongoing operations of the entity have ceased or they are substantially limited to those necessary to carry out the plan for liquidation. Attempting to apply the liquidation basis of accounting when there are significant ongoing operations would result in unnecessary application issues related to the measurement of the assets and liabilities, estimating costs to dispose of assets and settle liabilities, and estimating other costs and income expected to be



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realized during the liquidation process. The Board could clarify its intent by stating that the liquidation basis should be applied when the liquidation process has begun or is imminent and either of the conditions in 205-30-25-2 occurs.

For entities that have limited lives, we believe the Board should clarify the proposed requirements in 205-30-25-3. Based on the wording of the first sentence in that paragraph, it appears that one might conclude that the liquidation basis would be appropriate when significant management decisions about furthering the ongoing operations of the entity have ceased. However, based on Example 3 in 205-30-55-4 and the discussion in BC7, that does not appear to be the Board's intent. In addition, we do not believe a change in the date that the liquidation is expected to conclude would necessarily cause a limited-life entity to apply the liquidation basis. For example, we do not believe that a one year extension of the life of an originally 25-year limited-life entity should by itself cause the entity to shift to the liquidation basis if there were no other significant changes in the operations and liquidation plans of the entity. Accordingly, we believe it would be helpful for the Board to clarify that the liquidation basis would be applied to a limited-life entity only if there has been a substantial change in the liquidation plans and that the examples of changes described in 205-30-25-3 would not necessarily require the application of the liquidation basis in all instances.

We also believe that it would be helpful to describe or include an example of the appropriate financial statement presentation when the liquidation basis is initially applied during, rather than at the beginning or end, of a reporting period.

## Measurement of Assets and Liabilities

We believe it would be helpful to include additional guidance and examples to illustrate the proposed measurement guidance that would include considerations for determining financial statement amounts using the liquidation basis of accounting. We understand the guidance is intentionally nonprescriptive, and we agree that the standard need not prescribe detailed measurement guidance for every category of assets and liabilities. However, further clarification of certain concepts would be helpful. For example, an explanation of the difference between the measurement criteria in the proposed ASU and a fair value measurement under ASC Topic 820 would help clarify the measurement criteria that should be applied under a liquidation basis of accounting. We believe the Board should also clarify in the proposed ASU whether the time-value of money should be considered in the measurement.

## **Other Comments**

Paragraph 205-30-05-3 indicates that the guidance in this section is incremental to guidance that would otherwise apply to an entity. It is not clear what other guidance the Board intends to be applicable to entities that apply the liquidation basis of accounting.



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The proposed guidance from paragraph 205-30-50-1 indicates the disclosure requirements for entities applying the liquidation basis of accounting are in addition to all other disclosures required by U.S. GAAP. We believe the Board should consider whether all the disclosures required under U.S. GAAP for a going concern entity would also be necessary for an entity under the liquidation basis of accounting. Since the proposed ASU would require an entity to measure assets and liabilities at the amount of consideration that the entity expects to collect or pay in the liquidation process and accrue estimates of future costs and income through the date at which the entity expects to complete its liquidation, many disclosures in U.S. GAAP would not be relevant.

We also believe that the Board should consider disclosure requirements for situations where the liquidation basis is not currently being applied but it is reasonably possible that the entity will meet the criteria for the liquidation basis in the future. The Board could consider those disclosures as part of the next phase of its going concern project.

Although not a common situation, we believe the proposed ASU should provide guidance for entities that have appropriately concluded the liquidation basis of accounting should be applied when liquidation of the entity is no longer considered imminent. The guidance also should address how entities would transition from a liquidation basis of accounting to a going concern basis of accounting.

We would be pleased to further discuss the specifics of these matters in more detail at the request of the Board or the staff. If you have any questions about our comments or wish to discuss any of the matters addressed herein, please contact Mark Bielstein at (212) 909-5419 or Paul Munter at (212) 909-5567.

Sincerely,

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KPMG LLP