



October 1, 2012

Ms. Susan Cospier
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Dear Ms. Cospier:

Grant Thornton LLP appreciates the opportunity to comment on the proposed Accounting Standards Update (ASU), *The Liquidation Basis of Accounting*. We are supportive of the Board's efforts to (1) clarify when an entity should apply the liquidation basis of accounting and (2) provide principles for the measurement of assets and liabilities under the liquidation basis.

While we agree with the principles expressed in the proposed ASU, we are concerned about a lack of clarity around the guidance on determining when the liquidation basis should be applied by a limited-life entity, as explained in our response to Question 4, below.

In addition, we noted that the proposed guidance does not address the issue of whether an entity applying the liquidation basis of accounting is permitted to present comparative financial statements. We believe that the proposed guidance should address this issue, as explained in our response to Question 2, below.

We also believe that the proposed disclosure requirements could be amended to provide enhanced information to users of liquidation basis financial statements. Please see our response to Question 2, below, for details.

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 for determining when liquidation is imminent for a limited-life entity requires clarification, as explained in our response to Question 4, below. For other entities, we believe that the proposed guidance about when to apply the liquidation basis of accounting is appropriate and operational.

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 believe that guidance is sufficient and operational with the exception of the items discussed below.

In our view, the proposed guidance should address whether an entity applying the liquidation basis is permitted to present comparative financial statements.

According to *FASB Accounting Standards Codification*TM (ASC) 852-10-45-26 and 45-27:

Fresh-start financial statements prepared by entities emerging from Chapter 11 will not be comparable with those prepared before their plans were confirmed because they are, in effect, those of a new entity. Thus, comparative financial statements that straddle a confirmation date shall not be presented.

Regulatory agencies may require presentation of predecessor financial statements. However, such presentations shall not be viewed as a continuum because the financial statements are those of a different reporting entity and are prepared using a different basis of accounting, and, therefore, are not comparable. Attempts to disclose and explain exceptions that affect comparability would likely result in reporting that is so unwieldy it would not be useful.

In our view, the lack of comparability between financial statements prepared under different bases of accounting would preclude the presentation of comparative financial statements for an entity applying the liquidation basis just as it would for an entity preparing fresh-start financial statements. Accordingly, we believe the final ASU should provide similar guidance about comparative financial statements as exists for fresh-start financial statements.

Also, we believe that the proposed supplemental disclosure requirements should include a description of how the methods and significant assumptions used to measure assets and liabilities under the liquidation basis of accounting differ from, or are incremental to, those used to prepare the entity's financial statements on a going concern basis. In our view, this disclosure requirement would significantly enhance a user's understanding of the measurements reflected in an entity's liquidation basis financial statements.

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?

Because the proposed measurement basis is not fair value, we do not believe the guidance should differ for entities that primarily measure their assets at fair value.

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?

In our view, the staff should clarify the proposed guidance about when a limited-life entity should use the liquidation basis of accounting to ensure that it is appropriate and operational.

We believe the proposed guidance in ASC 205-30-25-3 would be enhanced if that section explicitly stated that a limited-life entity would never prepare liquidation basis financial statements if the entity liquidated in accordance with its governing documents as they existed at the entity's inception, similar to the language used in the proposed example at ASC 205-30-55-4.

Additionally, we believe the meaning of the phrase "significant management decisions about furthering the ongoing operations of the entity have ceased," is unclear, and that there could be differences in practice resulting from its interpretation.

Finally, if a limited-life entity changes its plan for liquidation, the proposed guidance in ASC 205-30-25-3 appears to require application of the liquidation basis once management's decisions are substantially limited to those necessary to carry out that plan. Accordingly, there would necessarily be a period during the existence of a limited-life entity with an amended plan of liquidation where the liquidation basis is required. For example, if the owners of a limited-life entity decide to amend the entity's governing documents to extend its contractual life in order to capitalize on new opportunities, as soon as management's decisions are primarily related to winding down the entity in accordance with its amended governing documents the entity would appear to require liquidation basis accounting. In contrast, the liquidation basis would not be required if the governing documents are not amended and management's decisions become primarily related to winding down the entity in accordance with its documented plan. Arguably in both situations the most meaningful presentation of the company's financial statements is on a going concern basis. We believe that an entity should not apply the liquidation basis of accounting in either instance.

We believe that the proposed guidance should be amended to focus on scenarios where an entity is liquidating in a manner inconsistent with the plan specified in its then-current governing documents. In our view, these scenarios would most often involve liquidation before

the stated expiration date of the entity. For clarity, we have suggested changes below that we believe would result in sufficient and operational guidance for determining whether liquidation is imminent for a limited-life entity.

205-30-25-3 If a plan for liquidation was specified in an entity's governing documents at the entity's inception (for example, limited-life entities), liquidation is not imminent at any time during its existence if its actual liquidation is carried-out in accordance with the liquidation plan specified in its governing documents, regardless of whether its governing documents are amended after inception. ~~then~~ ~~However~~, liquidation is imminent when significant management decisions ~~about furthering the ongoing operations of the entity have ceased or they~~ are substantially limited to those necessary to carry out a plan for liquidation that differs from the plan specified in the entity's governing documents at inception. Indicators that a plan for liquidation might differ from that ~~which was~~ specified in the governing documents include the following:

- a. The date that liquidation is expected to conclude is ~~earlier or later~~ than the contractually stated expiration date of the entity.
- b. The entity is forced to dispose of its assets in a manner that is not orderly or in exchange for consideration that is not commensurate with the fair value of such assets.
- e. ~~The entity's governing documents were amended since inception.~~

Other circumstances may arise that indicate a plan for liquidation that differs from that ~~which was~~ specified in the entity's governing documents.

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 apply to both public and nonpublic entities.

We would be pleased to discuss our comments with you. If you have any questions, please contact L. Charles Evans, Partner, Accounting Principles Consulting Group (Charles.Evans@us.gt.com or 832.476.3614).

Sincerely,

/s/ Grant Thornton LLP