



October 1, 2012

Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2012-210

The Accounting Principles Committee of the Illinois CPA Society (Committee) appreciates the opportunity to provide its perspective on the Proposed Accounting Standards Update (ASU), *The Liquidation Basis of Accounting*. The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of the Committee are outlined in Appendix A to this letter.

We appreciate the Board's efforts and are supportive of the goals to clarify when an entity should apply the liquidation basis of accounting and to provide both principles for the measurement of assets and liabilities and disclosure requirements under the liquidation basis of accounting.

While we generally agree with the principle that liquidation basis accounting is appropriate when liquidation is imminent, we believe that the proposed guidance related to limited-life entities must be clarified to avoid potential implementation issues and diversity in practice, as expressed in our response to Question 4, below.

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?*

In our view, the proposed guidance about when an entity should apply the liquidation basis of accounting requires clarification to ensure it is appropriate and operational. Please see our response to Question 4, below.

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 the proposed guidance on how to prepare financial statements using the liquidation basis is sufficient and operational.

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 the guidance should differ for entities that primarily measure their assets at fair value. We note that the proposed measurement basis is not fair value, and believe that the liquidation basis of accounting applies similarly to entities such as investment companies as to other types of entities for which fair value is not the primary measurement attribute.

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 proposed guidance about when a limited-life entity should use the liquidation basis of accounting requires clarification to ensure that it is appropriate and operational.

The proposed guidance in ASC 205-30-25-3 specifies that liquidation of a limited-life entity 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 other than the plan specified at inception.” It is unclear whether “furthering the ongoing operations of the entity” encompasses substantially all operating decisions except those associated with a revised liquidation plan, a subset of operating decisions associated with operating the entity as a going concern, or some other type of operating decisions. We believe that without clarification, diversity in practice will arise regarding whether certain decisions are intended to further the operations of an entity.

To illustrate, consider the proposed example in ASC 205-30-55-3. In this example a limited life entity designed to purchase and sell real estate properties becomes insolvent and begins to sell its properties ahead of its contractual expiration date. The example notes that liquidation basis accounting would apply at the time management's decisions become limited to those “related to the maintenance of its properties pending their sale.” It appears that decisions related to the maintenance of properties pending their sale could be considered the sort of decisions associated with furthering the ongoing operations of this type of entity. It is unclear whether it is the timing of the properties' disposal or the nature of management decisions being made that triggers liquidation basis accounting (or both) in this example. Regardless, we believe this example should be amended so that it clearly illustrates the application of the proposed guidance in ASC 205-30-25-3.

We also believe that the proposed guidance is unclear as to whether the amendment of a limited-life entity's liquidation plan would automatically trigger liquidation basis accounting at some point during the entity's life. The proposed guidance in ASC 205-30-25-3 would require application of the liquidation basis for limited-life entities where management's decisions are substantially limited to those necessary to carry out an amended plan for liquidation, indicating that there would be a period during the entity's existence that liquidation basis is required so long as the plan for liquidation has changed since the entity's inception. For example, the owners of an entity with a 10 year contractual life might decide in year five of the entity's existence that the life of the entity should be extended to

15 years to capitalize on new opportunities. In year six, assuming management's decisions are deemed related to furthering the entity's ongoing operations, liquidation basis accounting would not be applied. However, in year 14, if management's decisions are primarily related to winding down the entity in accordance with its amended governing documents, because those documents have been amended, the entity would appear to require liquidation basis accounting. In our view, this scenario should be treated the same as a scenario under which a limited-life entity is liquidated in accordance with the plan specified in its original governing documents. We believe that the nature of the amendment to the liquidation plan must be considered in determining whether liquidation of a limited-life entity is imminent. Therefore, it is our view that the proposed criteria for a limited-life entity's application of the liquidation basis should identify situations where (1) the entity's plan for liquidation has changed in such a way that financial statements prepared on a liquidation basis provide the most relevant information to users and (2) liquidation is imminent.

- 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 appreciate the opportunity to offer our comments.

Sincerely,

Jeffery P. Watson, CPA

Chair, Accounting Principles Committee

Scott G. Lehman, CPA

Vice-chair, Accounting Principles Committee

APPENDIX A

ACCOUNTING PRINCIPLES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2012-2013

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to fully study and discuss exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

Large: (national & regional)

Ryan Brady, CPA	Grant Thornton LLP
John A. Hepp, CPA	Grant Thornton LLP
Gergana G. Gencheva	McGladrey LLP
Scott G. Lehman, CPA (Vice Chair)	Crowe Horwath LLP
Elizabeth A. Prossnitz, CPA	BDO USA LLP
Robert B. Sledge, CPA	KPMG LLP

Medium: (more than 40 professionals)

Michael Kidd, CPA	Mowery & Schoenfeld LLC
Tad N. Render, CPA	Miller Cooper & Company Ltd
Steven C. Roiland, CPA	Kessler Orlean Silver & Co., PC
Jennifer L. Williamson, CPA	Ostrow Reisen Berk & Abrams Ltd.

Small: (less than 40 professionals)

Barbara Dennison, CPA	Selden Fox, Ltd.
Brian T. Kot, CPA	Cray Kaiser Ltd CPAs
Jeffery P. Watson, CPA (Chair)	Shepard Schwartz & Harris LLP

Industry:

Rose Cammarata, CPA	CME Group Inc.
Timothy R. Henrichs, CPA	Follett Corporation
Farah. Hollenbeck, CPA	Abbott Laboratories
Joshua D. Lance, CPA	N Pritzker Capital Management LLC
Marianne T. Lorenz, CPA	AGL Resources Inc.
Michael J. Maffei, CPA	GATX Corporation
Anthony Peters, CPA	McDonald's Corporation
Amanda M. Rzepka, CPA	Jet Support Services, Inc.

Educators:

James L. Fuehrmeyer, Jr., CPA	University of Notre Dame
Leonard C. Soffer, CPA	University of Chicago

Staff Representative:

Gayle S. Floresca, CPA	Illinois CPA Society
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