

October 1, 2012

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

File Reference No. 2012-210

Re: Proposed Accounting Standards Update, *The Liquidation Basis of Accounting*

Dear Ms. Cospers:

Deloitte & Touche LLP is pleased to comment on the FASB's proposed ASU *The Liquidation Basis of Accounting*.

We generally agree with the proposed ASU's guidance on determining when and how to apply the liquidation basis of accounting. Since there is currently little guidance on this topic, we believe that the proposal could help reduce diversity in practice. However, we also think that the Board could improve the proposed guidance by clarifying and expanding on certain aspects of it. The appendix of this letter, which contains responses to the questions posed in the proposed ASU, details our specific concerns.

We appreciate the opportunity to comment on the proposed ASU. If you have any questions concerning our comments, please contact Stuart Moss at (203) 761-3042.

Yours truly,

Deloitte & Touche LLP

cc: Robert Uhl

Appendix
Deloitte & Touche LLP
Responses to Proposed ASU's Questions for Respondents

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 on determining when liquidation is imminent is appropriate and operational and may help eliminate the current diversity in practice.

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 generally believe that the proposed guidance on using the liquidation basis of accounting to prepare financial statements is appropriate and operational. However, as discussed below, we think that the Board could improve the proposed guidance by clarifying and expanding on certain aspects of it.

While we understand the conceptual merits of using the liquidation basis of accounting to measure and recognize assets, liabilities, and related expenses, it may prove costly for preparers to implement the proposed guidance. Accordingly, we believe that before finalizing the guidance, the Board should gather feedback from (1) preparers to understand their implementation costs and (2) users to ensure that they approve of the information currently proposed for inclusion in liquidation-basis financial statements. Under the current proposal, auditors would need to obtain sufficient appropriate audit evidence supporting the entity's estimated value of the assets, liabilities, and related costs (both ongoing costs and costs to dispose). Because of the subjectivity of these estimates, such an evaluation may be costly. We recommend that the Board carefully consider the comments received by users and preparers to ascertain whether developing these estimates would be a significant practice issue.

In addition, when an entity applies the liquidation basis of accounting, it may be necessary to write up certain assets or liabilities from a cost basis to a liquidation basis (i.e., estimated consideration expected to be received or paid), which would result in an initial gain. Because of the lack of historical guidance on this topic, some may have analogized to other areas of accounting and elected to defer such initial gains until they could be realized (i.e., once a sales transaction or firm contract to sell the assets was in place to provide evidence of the expected consideration to be received). Although the proposed guidance does not specify how an entity should account for such gains, it appears to imply that any initial expected gains would be

recognized immediately. To help eliminate diversity in practice, the Board should consider clarifying how such gains should be recorded in an entity's liquidation-basis financial statements.

Further, because certain costs incurred by an entity during liquidation may have been incurred to sell the assets had the liquidation not occurred, we recommend that the Board consider and clarify the types of "estimated disposal costs" that must be accrued in accordance with ASC 205-30-30-2 under the proposed ASU. For example, an entity may, during liquidation, incur realtor commissions to sell its properties, but these costs may be incurred if the entity sold its properties during the ordinary course of business. Under the proposed ASU, it is not clear whether the commissions would be characterized as costs to dispose or as a reduction in the estimated consideration expected to be received (i.e., the measurement of the asset itself). Although this distinction affects only the presentation of these expenses, it is important to consider which presentation is most helpful for financial statement users. In our opinion, these costs should generally be presented separately from the measurement of the asset and classified as costs to dispose. This presentation would help make liquidation-basis financial statements more consistent and easier to understand and could make it easier for financial statement preparers to differentiate between costs that are solely incurred because of a liquidation and those that are incurred during a sale in the ordinary course of business.

However, we acknowledge that there may be instances in which certain costs to dispose would be better reflected as a reduction in the measurement of the asset rather than as a separately stated expense. For example, entities holding mutual-fund investments may incur redemption fees that are meant to curb short-term trading in what are often used as long-term investment vehicles. When an entity is forced to liquidate mutual-fund investments but had previously engaged in short-term trading or was forced to hold the investment for such a short period that redemption would trigger a redemption fee, these fees may rightly be considered a reduction in the estimated consideration expected to be received. Therefore, we recommend that the Board include guidance or application examples clarifying how preparers should present these costs in their liquidation-basis financial statements.

Finally, the accrual of ongoing costs and income may represent a change in practice for some entities. To address this change in practice, the Board should consider incorporating explicit transition guidance for entities that are in their liquidation period when the guidance is finalized. The Board appears to intend that such entities record a cumulative catch-up adjustment for these ongoing costs and for the income to be incurred or earned in the remaining liquidation period; however, we recommend that the Board include explicit language in the proposed transition 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 believe that the proposed guidance should apply to all entities, including investment companies, but could be further clarified to mitigate inconsistencies in the application of the liquidation basis of accounting. The proposal's Basis for Conclusions indicates that the expected amount of consideration may differ for entities that previously recorded assets and liabilities at fair value and that now apply the liquidation basis of accounting. Certain entities that measure their assets held in private funds at fair value may elect the practical expedient permitted by ASC 820 (if certain conditions are met), which allows for the use of net asset value (NAV). NAV is

File Reference No. 2012-210
October 1, 2012
Page 4

intended to represent the amount an entity expects to receive when it redeems a private-fund investment. This definition appears to be aligned with the initial measurement requirements under the proposed guidance. We recommend that the Board consider and clarify the interaction between the proposed guidance and ASC 820 regarding the use of NAV for valuing a private fund. While the concept of NAV does not seem so dissimilar from that of liquidation-basis measurement, NAV does not take into account future costs to dispose to be incurred by the investor. Therefore, the Board should also consider the implications of measuring an entity's investment in a private fund at NAV, as presented in liquidation-basis financial statements, and whether this amount should be reduced by the costs of disposing of the asset (e.g., redemption fees, as discussed in our response to Question 2).

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 generally agree that a limited-life entity should apply the liquidation basis of accounting in certain circumstances; however, we believe that the Board may need to further clarify its guidance on this topic.

First, we believe that the Board should clearly define the term "limited-life entity." The criteria in the guidance implicitly define a limited-life entity as an entity whose "plan for liquidation was specified in an entity's governing documents at an entity's inception." However, at the discretion of an entity's management, certain of the entity's governing documents may not state a liquidation date or may allow for an extension to the planned liquidation date. Under the proposed guidance, it is unclear whether such entities would be considered limited-life entities.

We generally agree that the liquidation basis of accounting should apply to limited-life entities when (1) the liquidation was not expected or (2) an entity was forced to dispose of its assets in a disorderly manner. This criterion has been incorporated into ASC 205-30-25-3(b) under the proposed ASU, which states, "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." We believe that this indicator should be the determining factor in whether a limited-life entity should use the liquidation basis of accounting to present its financial statements. Conversely, as currently drafted, indicators (a) and (c) of ASC 205-30-25-3 may be ineffective or lead to inconsistent application because they inadvertently reflect normal practices of what may otherwise be considered a limited-life entity. For example, investment companies frequently amend the governing documents of their funds to extend (or otherwise revise) the liquidation date, which is specifically allowed by their original governing documents. Accordingly, the proposed indicators may cause a limited-life entity to apply the liquidation basis of accounting even under this normal practice.

If the Board decides to keep the current indicators, we believe that it could improve (a) and (c) by adding the word "significantly" as follows:

- "The date that liquidation is expected to conclude is [significantly] earlier or later than the contractually stated expiration date of the entity."

File Reference No. 2012-210
October 1, 2012
Page 5

- “The entity’s governing documents were amended [significantly] since inception.”

As described above, certain governing documents may allow management to amend the documents at its discretion. Accordingly, our proposed change to the indicators may reduce the instances in which a limited-life entity is required to apply the liquidation basis of accounting.

If the Board agrees to add the word “significantly” as described above, it should consider giving examples illustrating how the indicators would lead to situations in which a limited-life entity would apply the liquidation basis of accounting. The Board may also want to consider requiring entities to disclose the reasons for the change in liquidation plan and governing documents and the significance of the change. Such clarification and examples could help reduce diversity in practice and improve the auditability of the application of such guidance.

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 agree that the proposed guidance should apply to both public and nonpublic entities.