American Institute of CPAs
1455 Pennsylvania Avenue, NW
Washington, DC 20004

October 4, 2012

Technical Director
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

File Reference No. 2012-210

Dear Ms. Cosper:

The Financial Reporting Executive Committee (FinREC) of the American Institute of Certified Accountants (AICPA) is pleased to offer its comments on the proposed FASB Accounting Standards Update (ASU), *Presentation of Financial Statements (Topic 205)—The Liquidation Basis of Accounting*. FinREC supports the proposed ASU's objective of clarifying when an entity should apply the liquidation basis of accounting and providing principles for the measurement of assets and liabilities under the liquidation basis of accounting as well as any required disclosures. FinREC has significant concerns, however, regarding the scope, recognition criteria, and the measurement attribute of the potential guidance, as discussed below.

Additionally, the AICPA's Employee Benefit Plan Expert Panel has a number of considerations and suggestions related specifically to benefit plans, which are attached as appendix A. FinREC requests that those comments be considered along with those in the body of this letter but has included them as an appendix for clarity.

Furthermore, FinREC believes that this project does not eliminate the need for management to assess whether a reporting entity is a going concern. Users of financial statements should be provided clear and timely information regarding the entity's assessment of its ability to continue as a going concern well before it makes a decision to liquidate and use the liquidation basis of accounting. FinREC believes that an entity's assessment of its ability should continue to be a separate project and suggests that the FASB keep that project on its priority list.

Scope

We believe that the proposed guidance should apply to both public and nonpublic entities. However, we believe that employee benefit plans should be specifically addressed in the ASU due to their unique characteristics, as discussed further in this letter. Otherwise, the Board should exclude employee benefit plans from the scope of this ASU and address these issues in a separate project specifically tailored to terminating plans.

We also note that it is unclear whether the proposed guidance is applicable in the case of liquidation of a subsidiary. To illustrate, assume Parent A consolidates Subsidiary B and

Subsidiary B is solely engaged in the business of environmental remediation on behalf of Parent A. If the liquidation of Subsidiary B is imminent because it has completed its remediation activities, should Subsidiary B use the liquidation basis of accounting when it is consolidated with Parent A? Said otherwise, can the liquidation basis of accounting apply to a subsidiary but not its parent? We believe the Board should clarify this point.

Recognition

FinREC is concerned with the recognition guidance and how the word *imminent* is used in the proposed ASU. Our concern can be stated simply as entities should not apply the liquidation basis too soon; that is, we believe that it should be rare that an entity, once having applied the liquidation basis of accounting, would revert to a going concern assumption.

We believe the use of *imminent* in paragraphs 205-30-25-1, 2, and 3 is unnecessary and confusing because imminent can refer to either the process to begin liquidation or to the final liquidation. It is unclear to us if it is intended to refer to the final liquidation, as, in some cases, liquidation can take years to complete. Accordingly, we suggest eliminating the use of the word altogether by deleting paragraph 205-30-25-1; revising paragraph 205-30-25-2 as follows: "An entity shall prepare financial statements in accordance with the requirements of this Subtopic when either of the following occurs . . . ."; and making consequential revisions to paragraph 205-30-25-3. If, however, the Board decides to retain *imminent*, we recommend that the Board enhance the concept to consider when a longer period of time until the expected liquidation exists (for example, when regulatory approvals are required before an entity is liquidated) and whether an entity should consider liquidation to be imminent in those situations.

Paragraph 205-30-25-4 states that "The liquidation basis of accounting shall be applied prospectively from the day that an entity meets the conditions of paragraph 205-30-25-1." With an emphasis on the word "prospectively," we believe it is unclear whether the use of the liquidation basis of accounting can ever be reversed. For example, an entity meets the applicable criteria and begins to apply the liquidation basis of accounting. During the course of that liquidation process, however, facts and circumstances change whereby the entity is able to receive an infusion of capital and now returns to a going concern. When, if ever, should the entity abandon the liquidation basis of accounting and go back to applying the rest of the codification? What would the transition be, prospective or retrospective?

We also believe it would be helpful if in paragraph 205-30-25-2(a) the Board added an example of the "person or persons" with the authority to make such a plan effective. For example, approval of a plan of liquidation could come from an entity's management or board of directors, a trustee, or a bankruptcy judge.

Limited Life Entities

Regarding limited-life entities, we believe the Board should clarify the meaning of "furthering the ongoing operations of the entity" in paragraph 205-30-25-3. It is unclear whether this is intended to mean any decisions made before the expected termination date of an entity or at a time when the entity is in the mode of selling its assets.

Furthermore, we believe that deciding 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 of liquidation other than the plan specified at inception" will be difficult. Accordingly, we believe the Board should consider enhancing the guidance to clarify what is intended or acknowledge that this is a significant judgment and there may some diversity in practice in accounting for limited-life entities.

Moreover, we are concerned that the liquidation basis might be applied when there is an orderly liquidation, as was intended when the entity was created, merely because the liquidation is expected to conclude earlier or later than the contractually stated expiration date of the entity or because the entity's governing documents were amended since inception. For example, many limited-life investment funds extend the termination date for various reasons, and it may not be sound for this to cause the fund to be considered in liquidation.

Initial Measurement

FinREC believes that the proposed ASU is unclear as to which expenses should be accrued in the liquidation basis financial statements and whether those expenses should be for part of the measurement of the asset to be liquidated or an accrual of expected future expenses as a liability (or a combination of both).

Under the proposed ASU, does the FASB expect entities to estimate—

1. All expenses that are expected to be incurred throughout the liquidation period?
2. All expenses that are expected to be incurred throughout the liquidation period that are directly associated with the liquidation (that is, exclude those costs that would continue to be incurred had the entity not been in liquidation)?

There is currently diversity in practice. While paragraph 205-30-30-3 seems to point to all expenses that are expected to be incurred throughout the liquidation process, paragraph BC7 states, in part, "an entity also would be required to accrue and separately present the estimated costs and income related to disposal of assets and liabilities, in addition to other costs and income *that the entity expects to incur to complete its liquidation* [emphasis added]," which can be read to support option 2 above.

Moreover, we believe it is unclear how the guidance in paragraph 205-30-30-3 should be applied given that liquidation can take a number of years.

As the measurement guidance for the liquidation basis includes the discussion of estimating costs, it is unclear whether the Board intends that the measurement of each asset be reduced by the costs to sell that asset or if the entity is expected to recognize a new liability and measure that liability to include all of the expected costs to be incurred during the liquidation. We believe that the proposed guidance needs to specifically clarify this point.

Presentation and Other Matters

We believe the Board should clarify paragraphs 205-30-05-3 and 205-30-50-1, which state that the reporting guidance in this Subtopic is incremental to guidance that otherwise applies to an entity. This seems to imply that the preparer should follow existing U.S. GAAP (which may require recognition and disclosure that would be different under liquidation accounting) rather than follow the proposed guidance.

FinREC also believes that the utility of the proposed ASU would be enhanced significantly if the ASU included illustrative financial statements, covering both a period for which the liquidation basis is applicable and a period for which the going-concern assumption is applicable.

* * * * *

We appreciate the opportunity to comment on the proposed ASU. We are available to discuss our comments with Board members or staff at their convenience.

Sincerely,

Richard Paul, CPA
Chairman
Financial Reporting Executive Committee

Appendix A – Employee Benefit Plans

Employee Benefit Plans

We believe that employee benefit plans should be specifically addressed in the proposed ASU due to their unique characteristics. As noted in the FASB's proposed private-company decision-making framework exposure document, the FASB acknowledged that employee benefit plans have unique characteristics, and that the needs of users of these financial statements are specific and more focused when compared with the needs of financial statement users of both public and private companies.

Currently, when the plan sponsor has made the decision to terminate an employee benefit plan, the plan follows the guidance in FASB ASC 960-40, 962-40, and 965-40; however, this guidance is not specific and, therefore, not particularly helpful. This proposed ASU does not aid in clarifying the reporting and disclosure issues for terminating plans and, in some ways, it causes even more confusion. We request that the Board consider the concerns outlined below and either provide more guidance to plans in this ASU or exclude employee benefit plans from the scope of the document and address these issues in a separate project specifically tailored to terminating employee benefit plans.

Recognition

FinREC is concerned that the ASU may create confusion about when employee benefit plans should begin reporting on the liquidation basis of accounting, as the guidance in the proposed ASU appears to conflict with existing guidance and in some cases changes guidance. FASB ASC 960-40, 962-40, and 965-40 currently stipulate that employee benefit plans first report on a liquidation basis in the year the decision to terminate is made. This proposal retains that stipulation; however, it also states in paragraph 205-30-25-1 that an entity is required to report on the liquidation basis when liquidation is "imminent."

Because a defined benefit pension plan may require approval from the Internal Revenue Service (IRS) or the Pension Benefit Guaranty Corporation (PBGC) to terminate, it is unclear whether the plan would begin reporting on the liquidation basis when the decision to terminate was made, or when approval was received from the IRS, PBGC, or both. Also, if the plan is taken over and partially funded by the PBGC, would the plan be considered a terminated plan? And if so, how would the plan estimate the plan obligation and additional funding under this scenario?

FASB ASC 960-40, 962-40, and 965-40 do not offer a plan any guidance on the differences that may exist between the determination of when liquidation is imminent versus when the decision to terminate a plan is made. Furthermore, paragraph 205-30-05-3 states that the accounting and reporting guidance in this Subtopic is incremental to guidance that otherwise applies to an entity.

In summary, FinREC makes three requests. First, if *imminent* is to be retained in the ASU, provide additional clarification of the term. Second, clarify whether FASB ASC 960-40, 962-40, and 965-40 supersedes the guidance in paragraph 205-30-25-1. Third, address the specific situations discussed above and other plan-specific scenarios.

Initial and Subsequent Measurement

The proposed ASU would require that assets and liabilities be measured to reflect the estimated amount of cash or other consideration that an entity expects to collect or pay to carry out its plan for liquidation. Estimated costs to dispose of assets or liabilities would be accrued and presented in the aggregate separately from the measurement of those assets or liabilities. Other costs and income that an entity expects to incur or earn (for example, payroll expense and interest income) would be accrued through the date at which the entity expects to complete its liquidation.

Employee benefit plans currently record plan assets at fair value, with very few exceptions. As such, under current guidance, little to no change would be required to report assets on the liquidation basis for terminating plans. However, the proposed requirement to estimate and record the future income and expense components separately from the value of the plan assets would be difficult for plans. For example, future income and expense is inherent in the fair value estimates; however, the proposed guidance would require that expected future income and expense components be excluded from the fair value determination and accrued separately. In addition, defined benefit plans may have difficulty estimating the timing of their distributions. The final distribution of the assets could occur many years after the decision to terminate is made because the plan needs IRS and PBGC approval to terminate, or because it may be more advantageous to wait until economic conditions are optimal for benefit payouts. Thus, this proposed additional information will be burdensome for the plan sponsors to prepare and has no added benefit to the financial statement user.

Additionally, the requirement to estimate and record the future income and expense components separately from the fair value of plan assets will continue to be an issue for each subsequent plan year, particularly for defined benefit plans, given that the period between the initial measurement and the ultimate distribution of plan assets could be a significant number of years. Because these long wind-down periods are primarily a result of pending regulatory approval, verifying participant information and completeness or other administrative steps to ensure an orderly disposal process, and not due to a "fire sale," fair value may be a more relevant measurement of plan assets to financial statement users.

Accumulated Plan Benefits

Defined benefit pension plans and defined benefit health and welfare plans require additional guidance on how to calculate accumulated benefit obligations under the proposed ASU. Under U.S. GAAP, plans currently may calculate this obligation using a beginning-of-the-year measurement date. It is unclear, however, whether this still would be acceptable under the proposed ASU, or whether these plans would need to measure these accumulated benefit obligations as of the end of the year. If the latter is the only option, plans would need transition guidance for the change in the measurement date. Additionally, would these obligations need to be recorded as a liability at end of the year on the statement of net assets in liquidation, or would separate disclosure still be sufficient? And what related note disclosures would be required?

Defined Contribution Plans

We request that the Board exclude defined contribution plans from the scope of this proposed ASU. As noted in the "Initial and Subsequent Measurement" section above, additional disclosures may be burdensome and would provide no benefit to financial statement users. In addition, the proposed ASU creates confusion about whether defined contribution plans would now be required to report benefit obligations (benefits payable) in the plan financial statements. Currently, defined contribution plans record benefits when paid; benefits payable are not accrued because the plan's net assets available to pay benefits equal the sum of participants' account balances and the amount owed to each participant is the value of his or her individual account. As such, if a benefit obligation is recorded, we assume it would be equal to the amount of plan assets available for benefits.

Fair Value Disclosures

Under this proposed standard, plan assets would no longer be recorded at "fair value." We request clarification on what this means for certain investments, such as fully benefit-responsive insurance contracts in defined contribution plans, which are presented at both fair value and contract value in the statement of net assets available for benefits. Additionally, would fair value disclosures no longer be required when reporting under the liquidation basis of accounting? We request that the Board issue specific guidance on the applicability of these disclosures and provide further guidance on the valuation of contracts with insurance companies.

Corrections

If the ASU is adopted for plans, the proposed terminology "For terminating plan assets" in sections 960-40-35-2 and 965-40-35-2 should be corrected to state either "for terminating plans" or "for terminating plans, assets and accumulated plan benefits," depending on the Board's intent.

Conclusion

For the reasons noted above, we request that the Board provide specific clarification and guidance in each of these areas to ensure employee benefit plans are able to comply with the requirements of this proposed ASU. If the Board decides not to include specific guidance for employee benefit plans within this proposed ASU, we request that the Board exclude employee benefit plans from the scope of this document, and address these specific issues in a separate project tailored to terminating plans.