

Section 6910, *Investment Companies*



.37 Considering the Length of Time It Will Take an Investment Company¹ to Liquidate Its Assets and Satisfy Its Liabilities When Determining If Liquidation Is Imminent

Inquiry— FASB ASC 205-30-25-1 states that an entity shall prepare financial statements in accordance with the requirements of the liquidation basis of accounting when liquidation is imminent, unless the liquidation follows a plan for liquidation that was specified in the entity’s governing documents at the entity’s inception. FASB ASC 205-30-25-2 defines when liquidation is imminent based on the occurrence of events and does not include a time element. Should an investment company consider the length of time it will take to liquidate its assets and satisfy its liabilities when determining if liquidation is imminent?

Reply—No. FASB ASC 205-30-25-2 defines *imminent* as when either of the following occurs:

- a. A plan for liquidation has been approved by the person or persons with the authority to make such a plan effective, and the likelihood is remote that any of the following will occur:
 1. Execution of the plan will be blocked by other parties (for example, those with shareholder rights)
 2. The entity will return from liquidation.
- b. A plan for liquidation is imposed by other forces (for example, involuntary bankruptcy), and the likelihood is remote that the entity will return from liquidation.

The definition of *imminent* is intended to coincide with the timing of the decision to liquidate, or the imposition of a plan for liquidation by other forces and, therefore, a change in the needs of the users of financial statements. The length of time it will take to liquidate an investment company’s assets and satisfy its liabilities is not a criterion for consideration in determining if liquidation is imminent. However, an investment company may consider whether the length of time it will take to liquidate its assets and satisfy its liabilities affects the assessment of whether the likelihood is remote that the investment company will return from liquidation or that execution of the plan will be blocked by other parties.

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