Section 6910, *Investment Companies*

.39 Presentation of Stub Period Information by an Investment Company[1]

Inquiry—Should an investment company (subject to presentation of liquidation-basis financial statements) present information for the stub period, which is the period from the most recent balance sheet date to the date liquidation becomes imminent?

Reply—Paragraph BC18 of the basis for conclusions in FASB Accounting Standards Update (ASU) No. 2013-07, *Presentation of Financial Statements (Topic 205): Liquidation Basis of Accounting*, indicates that the guidance in FASB ASC 205-30 requires the liquidation basis of accounting to be applied prospectively from the date that liquidation becomes imminent. However, FASB ASC 205-30 does not provide guidance about whether an entity should present information for the stub period. Paragraph BC18 further indicates that in deciding whether to present information about the stub period, an entity should consider the requirements of its regulator and the needs of any other anticipated users of the entity's financial statements. The governing documents for many nonpublic investment companies require audited financial statements to be provided to investors. Furthermore, the investment adviser may use the financial statements to satisfy regulatory requirements, such as Rule 206(4)-2 under the Investment Advisers Act of 1940 (Custody Rule), regulations of the Commodity Futures Trading Commission, requirements of the Cayman Islands Monetary Authority, OCC or state regulations for bank collective funds, and so on. Therefore, if the date of adoption of liquidation basis differs from year-end, an investment company would most likely present stub period financial statements up to the adoption date of the liquidation basis because such information is either required by legal or regulatory requirements or is considered relevant to users of the financial statements.

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