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**Proposed Accounting Standards Update, “Accounting and Reporting for Decreases in Ownership of a Subsidiary – a Scope Clarification”
(File Reference No. 1720-100)**

Dear Mr. Golden:

We appreciate the opportunity to comment on the Financial Accounting Standards Board (FASB) Proposed Accounting Standards Update, “Accounting and Reporting for Decreases in Ownership of a Subsidiary – a Scope Clarification” (the Exposure Draft). We support the FASB’s efforts to address the conflicting guidance with respect to the deconsolidation provisions of ASC 810-10 and the gain or loss treatment or derecognition criteria of other US GAAP (in particular with respect to sales of in-substance real estate), thereby reducing the potential for diversity in practice among financial statement preparers. Additionally, we agree with the FASB’s conclusion that the scope of the deconsolidation provisions of ASC 810-10 should include businesses and nonprofit activities. We believe that the scope modifications will allow preparers to focus on the substance of arrangements across transactions leading to more consistent application of the derecognition guidance in US GAAP and increased comparability of gain or loss treatment for similar transactions.

However, as more fully described below, we have concerns that the changes to the scope of ASC 810-10 extend beyond the event of deconsolidation and include decreases in ownership interests in an entity (e.g., if the subsidiary is not a business) that do not result in a change in control. Currently, those transactions are accounted for as equity transactions consistent with the view that noncontrolling interests represent an equity interest in the consolidated entity. We believe that excluding from the scope of ASC 810-10 decreases in ownership interests that do not result in the deconsolidation of such entities will create ambiguity with respect to the accounting for such transactions. In addition, we believe that such a conclusion is inconsistent with the accounting for increases in ownership interests for the same entities, which will continue to be treated as equity transactions. Therefore, we encourage the FASB to evaluate whether the changes to the scope of ASC 810-10 regarding decreases in ownership interests should focus on transactions in which there has been a change in control, rather than broadly addressing decreases in ownership interests.

In addition, we have the following detailed comments for the FASB’s consideration.

Decrease in a parent's ownership when control of the entity is maintained

As noted above, we have concerns with the asymmetry that would result, in certain circumstances, under the provisions of the Exposure Draft with respect to increases and decreases in a parent's ownership interest in a subsidiary while the parent retains a controlling financial interest in the subsidiary. To illustrate, noncontrolling interests might be recognized 1) from a business combination involving in-substance real estate or 2) through the application of the initial measurement provisions of ASC 810-10 to variable interest entities (VIEs) that do not meet the definition of a business. Subsequent to the initial measurement of noncontrolling interests, increases in a parent's ownership interest in a subsidiary are accounted for in accordance with the provisions of ASC 810-10-45-23. Those provisions require changes in a parent's ownership interest while the parent retains its controlling financial interest in a subsidiary to be accounted for as equity transactions. Under the Exposure Draft, this guidance will continue to apply to *increases* in ownership of an entity that is in-substance real estate or does not meet the definition of a business. However, the provisions of ASC 810-10-45-23 as written in the Exposure Draft would not apply to *decreases* in a parent's ownership interest in a subsidiary that is in-substance real estate or does not meet the definition of a business when control is maintained. We do not believe this asymmetry is appropriate. We believe that it could produce unusual results by requiring the application of different accounting models when a parent's ownership interest increases and later decreases while control is maintained.

A possible alternative would be to change the scope of ASC 810-10-45-23 to exclude both increases and decreases in ownership interests of a subsidiary that is in-substance real estate or does not meet the definition of a business. However, this alternative also would create asymmetry and result in unusual accounting consequences given that, upon obtaining control, a subsidiary's net assets, including the portion represented by the noncontrolling interest, are recognized at fair value, and under this alternative, increases in the controlling interest presumably would be remeasured at fair value (creating, in effect, multiple cost bases for individual assets and liabilities).

When a parent's ownership interest in a subsidiary decreases and control is maintained, the Exposure Draft would require the parent to apply accounting guidance outside of the provisions of ASC 810-10 for entities that are in-substance real estate or do not meet the definition of a business. We are not aware of guidance outside of ASC 810-10 that explicitly addresses the accounting for noncontrolling interests for in-substance real estate and non-business transactions. Therefore, we believe that this will create confusion in practice.

In addition, we note that with respect to the variable interest model within ASC 810-10, the concept of an "entity" is fundamental in reaching consolidation conclusions. That is, an enterprise is required to evaluate all entities for consolidation regardless of the underlying assets that those entities may hold. We observe that, in certain instances under the variable interest model, the primary beneficiary of a VIE may consolidate an entity that does not meet the definition of a business. Additionally, in these instances, the primary beneficiary may have no (or limited) rights or obligations with respect to the VIE's assets and liabilities. And while the consolidation literature contains elements that focus on the form of an arrangement, many VIEs have substantive activities. We are concerned that the Exposure Draft requires a parent to "look through" the entity to the underlying assets when the parent's ownership interest decreases and the parent maintains control of the entity. In fact, some have observed that the Exposure Draft seems to undermine the entity concept within the

consolidation literature by shifting the focus to the underlying assets that the entity holds. To be clear, we believe that decreases in the ownership of an entity (and its underlying assets) are conceptually different than transactions that result in the loss of control of an entity.

For the reasons described in the preceding paragraphs, we believe that the scope of ASC 810-10-45-23 should remain unchanged.

Deconsolidation provisions of ASC 810-10

Under the provisions of the Exposure Draft, the deconsolidation guidance within ASC 810-10-40-4 through 40-5 would not apply to entities that are in-substance real estate and entities that do not meet the definition of a business. ASC 810-10-40-4 is explicit with respect to the literature to look to for in-substance real estate (i.e., ASC 360-20 and ASC 976-605). However, the deconsolidation provisions in the Exposure Draft do not describe the literature to look to for other assets. For example, the provisions of ASC 810-10-40-4 do not indicate that an enterprise should look to ASC 860 for derecognition guidance for subsidiaries holding only financial assets. Therefore, we believe that financial statement preparers may find it challenging to locate the appropriate derecognition guidance for entities in common arrangements. Thus, we believe that the derecognition guidance for subsidiaries in ASC 810-10 should be more explicit in this regard. We also would hold this view for the guidance addressing decreases in a parent's ownership that do not result in a loss in control if the FASB rejects our suggestions above.

IFRS

The Exposure Draft notes that the proposed amendments may result in differences in accounting and reporting between US GAAP and IFRS. While we generally support the efforts of the FASB to address current conflicts in US GAAP, we are concerned that the Exposure Draft proposes changes to provisions that are not currently in conflict with other US authoritative literature or IFRS. Divergence from IFRS in these areas seems to unwind conclusions that were reached as part of the joint project with the IASB that resulted, in part, in the issuance of Statement 160. For example, we are not clear as to what current conflicts exist within the US literature for decreases in a parent's ownership interest in a subsidiary while control is maintained. We would encourage the FASB to reconsider diverging from IFRS in these areas.

Effective date and transition

ASC 810-10-65-29(c) indicates that "[e]ntities that are applying the transition guidance in (b) shall apply the pending content that links to this paragraph on a retrospective basis." The Summary section of the Exposure Draft is clear that retrospective application would be required to the first period that an enterprise adopted Statement 160. However, we do not believe that this is explicit in the proposed amendments of the Exposure Draft. We believe that clarification is necessary in order to avoid implementation issues.

We also note that the effective date and transition guidance is silent with respect to an entity's ability to adopt the final Accounting Standards Update (ASU) prior to the effective date. We recommend that the final ASU clarify whether early adoption is permitted. Given that diversity in practice already may exist for certain issues addressed by the proposed ASU, we would support permitting early adoption as it would serve to reduce that diversity.

Definition of nonprofit activity

We note on page 5 of the Exposure Draft that “[t]erms from the Master Glossary are in **bold type.**” However, we also note that “nonprofit activity” is not currently defined in the ASC Master Glossary and is not defined in the Exposure Draft.

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We appreciate the opportunity to provide our comments and observations on the Exposure Draft and would be pleased to discuss them with the Board members or the FASB staff at your convenience.

Very truly yours,

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

Attachment

Responses to the specific questions raised in the Exposure Draft

Question 1: Do you agree that the scope of the decrease in ownership guidance in Subtopic 810-10 should be limited to subsidiaries and groups of assets that are businesses or nonprofit activities?

We believe the deconsolidation provisions in ASC 810-10 should be limited to subsidiaries and groups of assets that are businesses or nonprofit activities. We believe that this helps to resolve conflicts within existing US GAAP. However, for reasons noted above, we do not believe that the decrease in ownership provisions in situations where control of the entity is maintained should be limited to businesses and nonprofit activities.

Question 2: Do you agree that sales of in-substance real estate should be excluded from the scope of the decrease in ownership provisions of Subtopic 810-10 even if it is a business or nonprofit activity?

We believe that sales of in-substance real estate should be excluded from the scope of the deconsolidation provisions in ASC 810-10. We believe that this helps to resolve conflicts within existing US GAAP. However, for reasons noted above, we do not believe that in-substance real estate should be excluded from the decrease in ownership provisions in situations where control of the entity is maintained.

Question 3: Do you agree that an entity should apply the guidance in Subtopic 810-10 for transfers of a business or nonprofit activity to an equity method investee (over which the entity has significant influence) or a joint venture (over which the entity has joint control)?

Yes, we believe that the application of the guidance in ASC 810-10 currently is required for entities that are transferred to an equity method investee or joint venture. Expanding the scope to include transfers of businesses is consistent with the changes to the other deconsolidation provisions in the Exposure Draft, with which we agree.

Question 4: Do you agree that the guidance in Subtopic 810-10 also should apply to an exchange of a group of assets that constitute a business or nonprofit activity for a noncontrolling interest in another entity?

Expanding the scope to include an exchange of a business is consistent with the changes to the other deconsolidation provisions in the Exposure Draft, with which we agree.

Question 5: Is the proposed effective date operational? If not, please explain why.

We believe that the proposed effective date is operational.