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January 14, 2016

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

File Reference No. 2015-330

Dear Ms. Cospers:

RSM US LLP (formerly McGladrey LLP) appreciates the opportunity to comment on the Proposed Accounting Standards Update (ASU), *Business Combinations (Topic 805): Clarifying the Definition of a Business* (the “proposed Update”). Overall, we are supportive of the Board’s efforts to improve the definition of a business as we agree that the current definition results in too many transactions being accounted for as business combination as compared to asset acquisitions. However, we are concerned that the guidance in the proposed Update, while clearly narrowing the definition of a business, may be difficult to apply and could result in diversity in practice. We would recommend that, rather than trying to make a wholesale change to the definition of a business, the Board focus on removing some of the unnecessary differences between the accounting for assets and businesses to reduce the impact this evaluation has on the accounting treatment.

Notwithstanding our recommendation above, provided below for your consideration are our responses to the “Questions for Respondents” on which specific comment was requested, along with comments and suggestions on other matters in the proposed Update. In our responses and comments, we highlight additional clarifications that we believe would further improve the operability and understandability of the proposed Update if the Board continues forward.

Responses to Questions for Respondents

Question 1: *Do you agree that to be a business a set of assets and activities must include, at a minimum, an input and a substantive process that together contribute to the ability to create outputs? If not, what other alternatives would you suggest?*

We agree from a conceptual standpoint that defining a business as a set of assets and activities that include an input and a substantive process that together contribute to the ability to create outputs would appropriately reduce the number of transactions being accounted for as business combinations. However, we are concerned that this clarified definition may be difficult to apply and could result in diversity in practice without further modifications. See our responses to the remaining questions along with our other comments and suggestions below for suggested modifications.

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Question 2: *Paragraphs 805-10-55-5A through 55-5D provide guidance on determining whether a set contains an input and a substantive process that together contribute to the ability to create outputs. Are the criteria appropriate, and would they be operable in practice? If not, why?*

If the definition of a business is clarified as proposed, we agree that the criteria are appropriate. However, we believe certain changes should be made as follows:

- In paragraph 805-10-55-5B-c, reference is made to an acquired process (or group of processes) being considered unique or scarce. However, no further guidance is included to help evaluate what should be considered in the assessment of whether an acquired process (or group of processes) is considered unique or scarce. We believe it would be helpful to note in this paragraph that a process would be considered unique or scarce if it's not readily accessible in the marketplace, which would be consistent with the facts in Case D at paragraph ASC 805-10-55-82.
- In paragraph 805-10-55-5D, it is noted that an example of a contractual arrangement that could take the place of employees would be a property or asset management contract. We believe it would be helpful to add in an outsourced manufacturing arrangement as an additional example of a contractual arrangement that could take the place of employees, so this paragraph is not solely focused on the real estate industry.

Question 3: *Would the proposed guidance be operable without the criteria in paragraphs 805-10-55-5A through 55-5D? Why or why not?*

We believe that the proposed guidance would result in significantly more diversity in practice if the criteria in paragraphs 805-10-55-5A through 5D were removed. Specifically, we believe it may often be unclear how to determine whether an acquired process was considered substantive without these criteria.

Question 4: *Paragraph 805-10-55-9 provides that the presence of more than an insignificant amount of goodwill may be an indicator that an acquired process is substantive. Do you think this indicator is appropriate and operable? Why or why not?*

We don't believe that this indicator is necessary and believe it should be removed. It's often not determinative as written in practice today and, given the additional guidance included in the proposed Update, we don't think it would be determinative or helpful in the revised guidance either.

Question 5: *Do you agree with the changes proposed to the definition of outputs? That is, do you agree that for purposes of evaluating whether a transferred set is a business, outputs should be focused on goods and services provided to customers? If not, why?*

We believe it is appropriate to narrow the definition of outputs and agree with the changes proposed to the definition.

Question 6: *Paragraphs 805-10-55-9A through 55-9C specify that if substantially all the fair value of the gross assets acquired is concentrated in a single identifiable asset, the set is not a business. Is it appropriate to include such a threshold, and would it be operable? If not, why?*

We agree that the threshold included in paragraphs 805-10-55-9A through 55-9C is appropriate and represents a practical approach to conclude that a business was not acquired without having to evaluate all of the criteria included in paragraphs 805-10-55-5A through 5D. We believe that if the threshold in paragraphs 805-10-55-9A through 55-9C is met, then a business was not acquired. We do however have a number of comments on ways to further improve this guidance as follows:

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- We believe that the term “substantially all” as used in paragraph 805-10-55-9A should be further addressed in the guidance as otherwise there may be diversity in practice. We understand that the new leasing guidance to be issued in 2016 is expected to note that ninety percent or more of the fair value of the underlying asset amounts to “substantially all” the fair value of the underlying asset. We think that including a similar definition of substantially all in this proposed Update would be helpful.
- It is unclear to us how to evaluate the phrase “fair value of the gross assets acquired” in paragraph 805-10-55-9A. We are unsure as to whether this is referring only to the “recognized” gross assets acquired or to all gross assets acquired, even those that may not be recognized for financial reporting purposes. Our initial view was that only recognized assets should be taken into consideration in this evaluation. However, when evaluating this guidance in Case E at paragraph 805-10-55-68, Pharma Co considered the fair value associated with the acquired workforce, which is an asset that’s not separately recognized in a business combination. In contrast to this, in Case F at paragraph 805-10-55-71, it is noted that this evaluation related to the fair value assigned to the license and customer contract, which implies that the evaluation should only consider assets that are separately recognized. In either case, we believe that this issue should be explicitly addressed in paragraph 805-10-55-9A and the examples modified as appropriate to be consistent. This issue is relevant both for situations regarding acquired assembled workforces as well as acquired customer-related intangible assets that are not recorded separately by private companies that elect the intangible asset alternative.
- We read the threshold included in these paragraphs as a practicability exception that if met, would result in not having to apply the criteria include in paragraphs 805-10-55-5A through 5D. As such, from a user perspective, we believe it would be helpful to move this threshold to earlier in the guidance prior to paragraphs 805-10-55-5A through 5D since those paragraphs would not have to be considered if this threshold was met.

Question 7: *The threshold in paragraph 805-10-55-9A also applies to a group of similar identifiable assets. Would the identification of a group of similar identifiable assets be operable? If not, why?*

We believe that the guidance on identifying a group of similar identifiable assets would be operable and the examples included in the proposed Update are helpful in this regard.

Question 8: *Will the proposed guidance reduce the cost and complexity of applying the definition of a business? Why or why not?*

We believe that the proposed Update will result in the accounting treatment of these transactions better reflecting the underlying economics, with less transactions being considered to be business combinations. However, we also believe this proposed guidance will increase the costs and complexity of applying the definition of a business since, in current practice, the definition of a business is extremely broad. As a result, for the vast majority of transactions today, it is relatively simple to conclude there is an acquisition of a business rather than an asset acquisition. Under the proposed Update, we expect that significantly more judgment will be involved in making this determination and, as a result, we think both costs and complexity will increase.

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Question 9: *How much time would be necessary to adopt the amendments in this proposed Update? Should early adoption be permitted? Would the amount of time needed to apply the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities?*

We don't think a significant amount of time will be necessary to adopt the amendments in most cases and believe companies should be allowed to adopt the guidance early. Furthermore, we don't think entities other than public business entities will need additional time to apply the proposed amendments as compared to public business entities.

Question 10: *Do you agree that the amendments in this proposed Update should be applied prospectively to any transaction that occurs on or after the date of adoption, and do you agree that there should be no explicit transition disclosure requirements? Why or why not?*

We agree that the amendments in the proposed Update should be applied on a prospective basis with no explicit transition disclosure requirements. We think it may be difficult and potentially time-consuming to apply the proposed amendments on a retrospective basis and don't believe there would be a significant amount of benefit to this approach from a financial statement users' perspective.

Question 11: *Do the examples in paragraphs 805-10-55-51 through 55-88 clearly illustrate the application of the proposed guidance? Why or why not?*

While we believe the examples in paragraphs 805-10-55-51 through 55-88 are helpful in illustrating the application of this guidance, we have a few comments and suggestions on how they could be improved as follows:

- Case D – In paragraph 805-10-55-66 it is noted that...“The set does not include any intellectual property or other inputs that the employees could develop or convert into outputs” and as a result is not considered a business. It seems to us that an assembled workforce was acquired and this would be considered a substantive process. Furthermore, inputs including equipment and the facility were acquired. As a result it's unclear to us why this set of assets acquired does not meet the definition of a business. Is it because the inputs are not considered to be one of the three inputs listed as examples in paragraph 805-10-55-5A-b? If that's the case, we suggest that section be modified to note those inputs listed as examples in paragraph 805-10-55-5A-b are not examples but the only items that would qualify as inputs for purposes of evaluating whether a business was acquired. If there is another reason for this conclusion, then we suggest that reasoning be added to the example.

Further, it is unclear to us whether the addition of any raw material inventory (even a small amount) would change the answer in this fact pattern as those raw materials could presumably be converted into outputs by the assembled workforce through the use of the acquired equipment. It seems to us, if a small amount of inventory were acquired, that doesn't necessarily change the economic substance of the transaction but could potentially change the accounting conclusion, which would seem counterintuitive. We have the same question as it relates to adding other acquired inputs to this fact pattern, such as a small customer contract.

- Case F - In paragraph 805-10-55-71, it is noted that...“The identifiable assets that could be recognized in a business combination include the license to distribute Yogurt Brand F, customer contracts, and the supply agreement.” However since the supply agreement was entered into by Company A and Company B at the time of the acquisition, we believe it is not

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an acquired asset and would be accounted for separately from the business combination. Therefore we don't think it would be considered when evaluating the guidance in paragraph 805-10-55-9A and this example should be modified to reflect this.

- Case H – In paragraph 805-10-55-78, it is noted when evaluating the guidance in paragraph 805-10-55-9A on whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets that...
“Although the leases are at market value, REIT concludes that the fair value of the in-place leases are significant and that the fair value of the gross assets acquired is not concentrated in either the leases or the tangible assets.” It is unclear to us how this conclusion was reached. It seems the conclusion was simply based on the fact that the fair value of the in-place leases was significant but we don't think that necessarily should lead to a conclusion that the acquired building does not represent substantially all of the fair value of the gross assets acquired. Our expectation is that the value of an acquired building in a fact pattern similar to this could represent substantially all of the fair value of the gross assets acquired. We believe further explanation should be included in the Case to address how the conclusion was reached that the fair value of the acquired building does not represent substantially all of the fair value of the gross assets acquired.

Question 12: *Do the changes to the Master Glossary create any unintended consequences?*

We did not identify any unintended consequences that would result from the proposed changes in the Master Glossary.

Other Comments and Suggestions

- In paragraph 805-10-55-3A, it is noted that ... “A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants.” We believe that the phrase “providing a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants” used in this paragraph should be changed to “providing goods or services to customers, other revenues, or investment income, such as dividends or interest” to be consistent with the changes made to paragraph 805-10-55-4c.

We appreciate this opportunity to provide feedback on the proposed Update and would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions to Rick Day at 563.888.4017 or Brian H. Marshall at 203.312.9329.

Sincerely,

RSM US LLP

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