



January 22, 2016

Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2015-330

The Accounting Principles Committee of the Illinois CPA Society (Committee) appreciates the opportunity to provide its perspective on the Proposed Accounting Standards Update—*Clarifying the Definition of a Business*. The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of the Committee are outlined in Appendix A to this letter.

We are supportive of the Board's efforts to assist entities with evaluating whether transactions should be accounted for as asset acquisitions or business combinations by clarifying the definition of a business. We believe that the proposed guidance will be helpful to preparers, and will address the practice that has developed over time of the definition of a business being applied, in our view, too broadly.

However, we believe the proposed guidance could be improved by clarifying what constitutes a "critical" function. We explain our suggested improvements in our responses to the proposal's Questions for Respondents.

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.

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 applicable in practice? If not, why?*

The proposed guidance explains that a process is substantive when it is critical to the ability to (a) develop or convert acquired inputs into outputs or (b) continue producing outputs. The proposed guidance then states that a process is not critical if, for example, it is considered ancillary or minor in the context of all the processes required to create outputs.

We do not believe a statement that a process is not critical if it is considered ancillary or minor is helpful, as it merely states the obvious. The word "critical" suggests a process that is vital or essential, and necessarily excludes ancillary or minor processes. Given the lack of guidance in the proposed ASU, the reader is left wondering how to identify processes that are critical.

We suggest either removing the statement in the proposed guidance about ancillary or minor processes, or replacing it with (or referring to) illustrative guidance that will better assist preparers in determining whether an acquired process is critical.

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

We do not believe the proposed guidance would be operable without guidance that explains and illustrates a substantive process. For instance, the proposed guidance in paragraph 805-10-55-5C, which would exclude contractual arrangements that provide for the continuation of revenue from the analysis of whether a substantive process has been acquired, should streamline the analysis by effectively neutralizing the controversy about whether such contracts are in fact processes (as explained in paragraph BC30). Without this guidance, preparers might continue to reach diverse conclusions about these arrangements in their analyses.

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 believe this indicator is appropriate and operable. We believe that in general there is positive correlation between the criticality of a process performed by an acquired workforce and goodwill, so it is appropriate to consider the presence of more than an insignificant amount of goodwill as an indicator that a transaction involves the acquisition of a business.

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 agree.

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 believe it is appropriate for the Board to include such a threshold in the proposed guidance, as it addresses a major issue in current practice—the excessively broad application of the definition of a business. We believe this threshold would be operable.

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 the guidance about identifying a group of similar identifiable assets would be operable.

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

We believe the proposed guidance would reduce the cost and complexity of applying the definition of a business. In our view, the concentration threshold as well as the proposal's focus on substantive processes and outputs associated with revenue or investment income will appropriately clarify and narrow the scope of the definition. The lack of clarity cited in paragraph B11 leads to inconsistent application and drives up the cost of compliance by requiring additional accounting research, lengthier discussions with key stakeholders, and the need for more in-depth documentation of the professional judgments made.

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 do not believe that entities will require a significant amount of time to adopt the proposed guidance, and it is our view that early adoption should be permitted. We do not believe that non-public business entities will require additional time to adopt the proposed guidance, since the proposed guidance reduces the cost and complexity of applying the definition of a business.

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.

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?*

In general, we believe the proposed examples are useful for applying the proposed guidance. However, we believe the examples could more clearly illustrate how an entity determines whether a substantive process is acquired.

In Case H, an acquirer determines that cleaning and security processes are not critical in the context of all the processes required to create outputs by operating an office building. In part, this conclusion is based on the fact that the cleaning and security processes could be replaced with little cost, effort, or delay in the ability to continue producing outputs.

In Case I, the acquirer of a fully leased office building determines that processes involving leasing, tenant management, and managing and supervising all operational processes are critical to the ability to continue producing outputs. There is no consideration as to whether the organized workforce performing these processes could be replaced with little cost, effort, or delay in the ability to continue producing outputs as there would be when assessing whether an acquired process is substantive.

We believe that whether an organized workforce performing a process could be replaced with little cost, effort, or delay in the ability to continue producing outputs (805-10-55-5B(b)) could inform a decision about whether the acquired process is critical (805-10-55-5B(a)). Regarding Case I, if the organized workforce could be replaced with little cost, effort, or delay in the ability to continue producing outputs, we believe the acquired processes might not be substantive for purposes of determining whether the set is a business. We do not believe that an acquirer's decision to use its own employees or the in-place workforce should be a deciding factor in whether the acquired set is a business in the absence of the employees having specialized skills or knowledge that are not readily replaceable.

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

We are not aware of any unintended consequences created by the proposed amendments to the Master Glossary.

We appreciate the opportunity to offer our comments.

Sincerely,

Scott G. Lehman, CPA

Chair, Accounting Principles Committee

Ryan Brady, CPA

Vice Chair, Accounting Principles Committee

APPENDIX A

ACCOUNTING PRINCIPLES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2015-2016

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to fully study and discuss exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

Large: (national & regional)

Ryan Brady, CPA (Vice Chair)	Grant Thornton LLP
John Hepp, CPA	University of Illinois Urbana-Champaign
David Jamiolkowski, CPA	Baker Tilly Virchow Krause, LLP
William Keirse, CPA	Ernst & Young LLP
Scott Lehman, CPA (Chair)	Crowe Horwath LLP
Reid Mitchell, CPA	Wipfli LLP
Elizabeth Prossnitz, CPA	BDO USA LLP

Medium: (more than 40 professionals)

Timothy Bellazzini, CPA	Sikich LLP
Michael Kidd, CPA	Mowery & Schoenfeld LLC
Matthew Mitzen, CPA	Marcum LLP
Krunal Shah, CPA	Mitchell & Titus LLP
Jeffery Watson, CPA	Miller Cooper & Company Ltd

Small: (less than 40 professionals)

Peggy Brady, CPA	Selden Fox, Ltd.
Marvin Hoffman, CPA	Bronswick, Reicin, Pollack, Ltd.
Brian Kot, CPA	Cray Kaiser Ltd CPAs
Joshua Lance, CPA	Joshua Lance CPA, LLC

Industry:

Rose Cammarata, CPA	CME Group Inc.
Anand Dalal, CPA	Toji Trading Group LLC
Ashlee Earl, CPA	Seaway Bank and Trust Company
Jeffrey Ellis, CPA	FTI Consulting, Inc.
Farah Hollenbeck, CPA	Abbvie
Marianne Lorenz, CPA	AGL Resources Inc.
Michael Maffei, CPA	GATX Corporation
Ying McEwen, CPA	Case New Holland
Anthony Peters, CPA	McDonald's Corporation
Martin Ross, CPA	Riveron Consulting LP
Amanda Rzepka, CPA	Jet Support Services, Inc.
Richard Tarapchak, CPA	National Material

Staff Representative:

Gayle Floresca, CPA	Illinois CPA Society
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