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January 22, 2016

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

File Reference No. 2015-330, *Proposed Accounting Standards Update, Business Combinations (Topic 805): Clarifying the Definition of a Business*

Dear Ms. Cospers:

Citigroup appreciates the opportunity to comment on the Exposure Draft for the proposed Accounting Standards Update (“ASU”), *Business Combinations (Topic 805): Clarifying the Definition of a Business* (“the Proposal”).

We support the efforts of the Board to provide a more robust framework for analyzing whether a set of assets and activities (“the set”) being transferred qualifies as a business, with the overall objective of reducing the costs and complexity of applying current guidance, as well as facilitating consistency in application.

While we are generally supportive of the additional guidance in the Proposal, we have some concerns on certain aspects of the Proposal, most notably:

- We do not agree with a threshold criterion (“the screen”) that prevents the set being transferred from qualifying as a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. We suggest that in lieu of identifying a bright-line screen, the proposed fair value threshold should be considered an *indicative* factor in analyzing whether a set is a business, rather than a *determinative* factor.
- In order to apply the screen, additional guidance is needed for what constitutes a group of similar identifiable assets. We believe that the guidance may be unclear when applied to certain industries (e.g., financial services entities, which have multiple classes of financial instruments and multiple subcategories within each financial instrument category). It is not clear from the guidance at what level the transferring assets should be treated as a group of similar identifiable assets in applying the screen. The outcome of the screen may therefore differ based on an entity’s interpretation of the appropriate level of asset aggregation.

- From a seller's perspective in a disposal transaction, fair value by each asset class (on either a quantitative or qualitative basis) would be needed in order to apply the screen, which is not required under current GAAP and could potentially increase the costs associated with implementation of the proposed guidance.
- We do not agree that the presence of more than an insignificant amount of goodwill may be an indicator that an acquired process is substantive. Applying goodwill as an indicator of a substantive process would make the analysis of what qualifies as a business circular (i.e., goodwill is only recognized or allocated after the set is already determined to be a business). Furthermore, the transaction price for the set may be negotiated at a premium or discount for a variety of reasons not related to an acquired process.

Our responses to the specific questions presented in the Proposal are provided below.

We would be pleased to discuss our comments with you at your convenience. Please feel free to call me at (347) 648-7721.

Sincerely,



Robert Traficanti
Global Head of Accounting Policy

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 with the above requirements to be a business.

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?*

We agree that the above criteria are appropriate and operable.

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 support FASB's goal of providing a clearer set of criteria for analysis.

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 do not agree with the above indicator since it would make the analysis of what constitutes a business circular. A set must have a substantive process first to qualify as a business and only if the set qualifies as a business that goodwill can be recognized or allocated. Furthermore, the transaction price for the set may be negotiated at a premium or discount for a variety of reasons not related to an acquired process. For example, a set may be negotiated at a discount due to projected operating losses and still meet the criteria in paragraphs 805-10-55-5A through 55-5D to be a business. Alternatively, a set may be negotiated at a premium despite the absence of inputs or a substantive process. We suggest that the analysis of what constitutes a substantive process should be focused on the criteria in paragraphs 805-10-55-5A through 55-5D (i.e., critical, unique, scarce).

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 agree with the proposed definition of outputs which will achieve consistency with topic 606.

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?*

While we understand that applying a "substantially all" (widely interpreted as being greater than 90 percent) threshold as the first screen would simplify the analysis and reduce the amount of transactions that would qualify as a business, such a bright-line screen may, in certain cases, yield a result that would not reflect the substance of the set being transferred (i.e., a set may not qualify as a business based on the screen despite having the necessary inputs and substantive process required to otherwise qualify as a business). Instead of a bright-line test, we suggest that such a threshold be applied as an *indicative* factor in evaluating whether the set is a business, rather than a *determinative* factor. Also, in order to apply the screen, fair value by each asset class would be needed, which is not required under current GAAP on the part of a seller in a disposal transaction and which could potentially increase the implementation costs.

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?*

While we appreciate the FASB's guidance and illustrative examples, we believe that the guidance may not be clear when applied to transactions common in certain industries, like financial services, which have multiple classes of financial instruments, and subcategories within those major categories. For example, Citi may transfer a business that includes different types of loans (e.g., consumer, corporate, mortgage and real estate, card, asset-backed financing, etc.); however, it is not clear from the guidance in applying the screen, whether all loans together should be considered a group of similar identifiable assets, or whether each type of loan constitutes a group of similar identifiable assets separately. The interpretation of this requirement can be subjective across preparers and may yield different results when applying the threshold.

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

While the criteria in paragraphs 805-10-55-5A through 55-5D reduce the complexity of applying the definition of a business as fewer transactions will qualify for further analysis, the requirement in paragraph 805-10-55-9A for a screen might result in additional costs and efforts as noted in our response to Questions 6 and 7.

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?*

Citi does not anticipate requiring a significant amount of time for adoption of the final standard. An option for early adoption should be permitted.

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 with prospective application with no explicit transition disclosure requirements. Such transition would be consistent with the objective of this Proposal, which is to reduce the costs and complexity of its application. From a seller's perspective, we suggest that the proposed transition guidance be applied to transactions classified as held for sale on or after the effective date. On the acquisition side, absent additional clarity, we recognize that buyers may apply the transition guidance differently, with either the sales agreement signing date or transaction closing date constituting "occurrence" of a transaction, thereby leading to diversity in application of the transition guidance.

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?*

Yes, except as noted in our responses to Questions 6 and 7.

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

Yes, as noted in our response to Question 6.