



January 22, 2016

Susan M. Cospers, Technical Director  
FASB  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

Via Email to [director@fasb.org](mailto:director@fasb.org)

Grant Thornton LLP  
Grant Thornton Tower  
171 N. Clark Street, Suite 200  
Chicago, IL 60601-3370

T +1 312 856 0200  
F +1 312 565 4719  
grantthornton.com

Re: File reference number 2015-330

Dear Ms. Cospers:

Grant Thornton LLP appreciates the opportunity to comment on Proposed Accounting Standards Update, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. We support the Board's effort to reduce the cost and complexity of determining whether an acquired set is a business and to narrow the application of the definition of a business to exclude certain transactions that are more akin to asset acquisitions.

We agree with the Board's rationale for developing the project: that there are sets of acquired inputs, processes, and outputs (collectively, "sets") identified as businesses under the current definition of a business that seem more appropriately accounted for as asset acquisitions, and that the current definition is often difficult to evaluate and costly to apply in practice. We believe enhanced precision and clarity in the definition of a business would help to address issues raised in the Statement 141(R) post-implementation review.

However, as noted below in our response to Question 6, we believe the proposed screen described in paragraph 805-10-55-9A of the proposal should not be a required quantitative test before an acquirer considers the full definition of a business, but rather a factor within the context of the broader definition of a business. We also suggest that the proposal address how to evaluate whether the value of a single asset, or group of similar assets, constitutes "substantially all" of the fair value of the assets in an acquired set. In practice, the screen might be viewed as a bright line and could lead to an asset-acquisition accounting conclusion when other attributes clearly point to the set being a business.

Further, the absence of a measurement-period concept in accounting for asset acquisitions might present significant application issues to acquiring entities. As proposed, the guidance likely would increase the number of transactions considered asset acquisitions, including certain sets that require complex valuations to support purchase-price allocation. We recommend that the Board consider addressing whether asset-acquisition accounting should provide for measurement-period guidance.

Our answers to the questions for respondents follow.

**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 premise described above.

**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 not?**

We believe including a framework to assist entities in determining whether an acquired process is substantive is necessary to ensuring consistent application of the proposed definition of a business. Further, we generally believe the guidance in paragraphs 805-10-55-5A through 55-5D is helpful, although we propose the following additional recommendations.

The proposed guidance introduces the concept of a “critical process.” While there is some guidance as to when a process is not critical, we believe the proposed guidance would be more helpful if it explicitly explained when a process is “critical.” We reviewed the existing concept of a process that “most significantly impacts economic performance” in the consolidation literature (ASC 810-10), and are unclear as to how or if this concept differs from a critical process in the proposal. We recommend that the Board consider clarifying the intended meaning of “critical” to better enable entities to apply the proposed guidance. As an alternative, we suggest that the Board consider whether an existing concept, such as that from the consolidation guidance discussed above, could be used instead of the term “critical” in the proposed guidance.

In our view, the proposed guidance as currently drafted in paragraph 805-10-55-5C is unclear. The first sentence states, “If a set has outputs, a continuation of revenues does not, on its own, indicate that both an input and substantive process have been acquired.” That language suggests that a continuation of revenues, while not determinative, is an indicator to be considered when analyzing whether an acquired process is substantive. However, the next sentence then requires entities to exclude from the analysis the continuation of revenue arrangements. We believe the requirement to exclude acquired contracts from the analysis is inappropriate because the acquired contracts may be a helpful indicator that a substantive process has been obtained. We therefore recommend revising the first sentence of paragraph 5C to state, “If a set has outputs, a continuation of revenues ~~does~~ is not, on its own, ~~indicate~~ determinative that both an input and substantive process have been acquired,” and striking the next sentence in paragraph 5C.

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

Our response to Question 2 notwithstanding, we do not believe the proposed guidance would be operable without the criteria in paragraphs 805-10-55-5A through 55-5D because the framework in those paragraphs would be useful to entities evaluating whether a substantive process exists. In particular, we believe the phrase “unique or scarce” in paragraph 805-10-55-5Bc would be helpful in many of those evaluations. Without such guidance, we believe there likely would be significant uncertainty regarding whether a substantive process exists, potentially leading to complexity, cost, and diversity in practice.

**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 understand and appreciate the point of view that the presence of more than insignificant goodwill may indicate that an acquired process is substantive and agree that the indicator is appropriate and operable. We recommend, however, that the wording be clarified to explicitly state that while the presence of goodwill may be an indicator that an acquired process is substantive, the absence of goodwill should not influence the assessment regarding whether a process is substantive.

**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? Why or why not?**

We agree with the changes proposed to the definition of outputs. Ultimately, most businesses exist to derive economic benefits from transactions with customers or from managing investments. Accordingly the activities that most significantly impact the economic performance of a “set” – when that set is a business – should at some level involve generating income from transactions with customers or from managing investments, as opposed to activities that only reduce internal costs.

In our experience, the current definition of outputs, which includes the phrase “the ability to provide a return,” has added complexity in applying the guidance, therefore, we support deletion of this phrase from the definition of outputs. We support retaining the phrases “capable of” and “ability to create” in paragraphs 805-10-55-4 and 55-5, however, because we believe a market participant would evaluate a “set” from that perspective.

**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 do not believe the threshold is either appropriate or operable for the following reasons.

We believe the screen may have a disproportionate impact on certain capital-intensive industries, particularly those where substantially all of the value of the acquired assets is attributable to a single asset or group of assets, and yet that set might be rightly considered a business. Accordingly, we do not believe the threshold in paragraph 805-10-55-9A should be a requirement, but rather an indicator to consider. In other words, we do not believe that substantially all of the fair value of gross assets residing in a single asset or group of similar assets should be determinative that the set is not a business.

We are concerned that in practice, a false expectation might arise that all asset acquisitions should be caught by the screen and, as a result, sets that pass the screen might not receive as much thoughtful judgment as to whether their acquisition should be accounted for as asset acquisitions or business combinations.

We believe the screen may introduce undue cost and effort in circumstances where it is clear that a set is an asset acquisition because a substantive process was not acquired. We therefore recommend removal of the requirement to analyze all sets under the screen. We note that Case C (paragraphs 805-10-55-58 through 55-61) is an example in which entities could conclude that the set is not a business without first applying the quantitative threshold, and we believe there will be many similar fact patterns in practice. Accordingly, we suggest that the Board consider revising paragraph 805-10-55-9A as follows: “~~Notwithstanding the guidance in paragraphs 805-10-55-4 through 55-9, if substantially~~Substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, the set is not considered a business may indicate that the acquired process is not substantive and the set is not a business.”

**Question 7: The threshold in paragraphs 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 identification of a group of similar identifiable assets would be operable.

**Question 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 will reduce the cost and complexity of applying the definition of a business. Our experience is that the major sources of cost and complexity in applying the current definition of a business that would be reduced by the proposed guidance are (1) the requirement to assess whether, pursuant to paragraph 805-10-55-5, a market participant is capable of acquiring the business and continuing to produce outputs, for example, by integrating the business with the acquirer’s own inputs and processes, (2) the very broad definition of outputs in paragraph 805-10-55-4c, and (3) the application of the definition of a business to transactions that many believe are in economic substance asset acquisitions. However, as noted in our response to Question 6, we believe the introduction of the screen could add additional cost and complexity that may somewhat reduce benefits the Board hopes to derive from the proposed guidance.

**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 defer to those in practice to comment on the time that will be required to adopt the amendments in this proposed Update, including whether certain entities would need more time than others. Because the proposed guidance impacts transactions that tend to occur on a relatively infrequent basis for most entities, we believe that early adoption should be allowed for entities that enter into asset acquisitions or business combinations after the ASU is issued but before the required effective date.

**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 proposed Update should be applied prospectively – to do otherwise would be prohibitively costly and provide very little benefit in the way of decision-useful information for transactions that previously have been reported. However, we believe that entities should be allowed to apply the proposed guidance retrospectively to acquisitions in periods for which financial statements have not been issued or been made available for issuance. In particular, entities other than public business entities often issue only annual financial statements and would benefit from applying the new guidance to transactions in a period for which financial statements have yet to be issued.

Further, we agree that there should be no explicit transition disclosure requirements, as entities would disclose in accounting policies that the new accounting standard had been adopted and when.

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

We believe the examples clearly illustrate the application of the proposed guidance.

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

We do not believe there would be any unintended consequences with the changes to the Master Glossary.

\*\*\*\*\*

We would be pleased to discuss our comments with you. If you have any questions, please contact Doug Reynolds, Partner, 617.848.4877, [Doug.Reynolds@us.gt.com](mailto:Doug.Reynolds@us.gt.com), or Graham Dyer, Senior Manager, 214.561.2385, [Graham.Dyer@us.gt.com](mailto:Graham.Dyer@us.gt.com).

Sincerely,

/s/ Grant Thornton LLP