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January 22, 2016

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

**File Reference No. 2015-330**  
**Re: Proposed Accounting Standards Update, *Clarifying the Definition of a Business***

Dear Ms. Cospers:

Deloitte & Touche LLP is pleased to comment on the FASB's proposed Accounting Standards Update (ASU) *Clarifying the Definition of a Business*. We support the Board's efforts to clarify the definition of a business. In our experience, the current definition has been difficult to apply and has resulted in different views and application both within and across industries. Further, we believe that the current definition of a business is being applied too broadly and therefore support including the guidance specifying that when 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 should be considered an asset acquisition.

While we believe that the proposed ASU would significantly improve the current guidance, appropriately resulting in the identification of more transactions as asset acquisitions rather than as business combinations, we think that it may be helpful to clarify the definition and related interpretive guidance to avoid diversity in practice. For example, under the guidance as proposed, it may not always be clear whether a group of identifiable assets is *similar* or whether an organized workforce is performing a *substantive process*. To reduce the judgment associated with identifying a business acquisition versus identifying a group of assets, we strongly encourage the Board to align the accounting treatment for each, particularly for items such as in-process research and development, acquisition costs, and contingent consideration.

The current definition of a business in the Codification is converged with the IASB's definition in IFRS 3, *Business Combinations*. We appreciate that the FASB and IASB have coordinated recent projects in amending this definition and that the IASB is expected to issue a similar proposal soon. We encourage the boards to continue to work together during redeliberations toward a goal of simultaneously issuing final standards that are converged as much as possible.

The appendix below contains our responses to the proposed ASU's questions for respondents.

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We appreciate the opportunity to comment on the proposed ASU. If you have any questions concerning our comments, please feel free to contact Michael Morrissey at 203-761-3630.

Yours truly,

Deloitte & Touche LLP

cc: Robert Uhl

**Appendix**  
**Deloitte & Touche LLP**  
**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?*

Yes. We agree with the Board's comment in paragraph BC17 of the proposed ASU that "the existence of a process (or processes) is what distinguishes a business from an asset." We also agree that for a set to be a business, a process must be acquired and substantive, since differences in accounting should not be based on nonsubstantive items. Therefore, we agree with the Board's intent to clarify the definition by stating that, at a minimum, a set must include an input and a substantive process.

*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 with the Board's rationale that when outputs are not present, an entity should need to apply more stringent criteria to determine whether a set has a substantive process. We believe that an entity will still need to use judgment in determining whether a process is substantive. For example, ASC 805-10-55-5A(a) states that a "process (or group of processes) is not critical if, for example, it is considered ancillary or minor in the context of all the processes required to create outputs." We therefore ask that the Board further clarify the meaning of ancillary or minor, since otherwise we believe that diversity may result.

We also believe that the Board should clarify the definition of a *process* in ASC 805-10-55-4(b) to better differentiate a process from an input, since this distinction is not always clear. For example, employees are included in the definition of an input and an organized workforce is included in the definition of a process. Similarly, we ask that the Board reconsider the guidance in ASC 805-10-55-5D. We believe that contractual arrangements such as contract manufacturing arrangements, contract research arrangements, leases, and supply agreements are inputs, not processes.

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

No. We believe that the meaning of a substantive process needs to be clarified. Notwithstanding our request to clarify the meaning of ancillary or minor, we believe that it is important to clarify that the acquisition of only a nonsubstantive process should not result in a business. We also agree with the additional guidance clarifying that an organized workforce must have the necessary skills, knowledge, or experience to perform an acquired process (or group of processes).

*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?*

No. This proposed indicator is similar to the indicator in the current guidance. In our experience, it is not possible to qualitatively determine whether goodwill is present, so preparers must measure the fair values of the assets acquired to determine whether there is an excess of the cost of the acquisition over the fair value of the assets acquired. If an excess is identified, it may not be clear whether the difference represents an overpayment that would be reported as goodwill in the case of a business combination or an additional cost of the asset(s) acquired in the case of an asset acquisition. Thus, the identification of a difference is not conclusive in the determination of the accounting for the acquisition. We therefore question whether such an indicator is helpful and do not believe it is currently used in practice.

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*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?*

Yes. We agree with the proposed changes to the definitions of outputs. The current definition of this term has led to confusion in practice since almost any asset could provide a return in the form of other economic benefits if it were to be sold. Therefore, we believe that amending the definition of outputs to focus on the results of revenue-generating activities is an improvement. In addition, for consistency, we suggest aligning the proposed changes to the definition of outputs with the wording in ASC 805-10-55-3A to say the following:

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 sales of goods or services to customers, other revenues, or investment income, such as dividends or interest.

*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?*

Yes. We agree that a set is not a business if substantially all the fair value of the gross assets acquired is concentrated in a single identifiable asset. We also agree that the inclusion of the threshold is a practical and operable way to identify the acquisition of an asset.

*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?*

In principle, we agree that the threshold should apply equally to the acquisition of one asset or a group of similar assets. However, we believe that the meaning of a “group of similar identifiable assets” may not be clear. For example, it is not clear whether an individual asset and a related deferred tax asset would be considered “similar.” Although the proposed guidance in ASC 805-10-55-9C lists assets that should *not* be considered similar, we believe that an entity may need to use significant judgment in determining what *is* similar if this term is not further clarified.

We note one example from ASC 805-20-55-2(b), which, though it is not directly related to these proposed amendments, allows a tangible and an intangible asset to be combined for financial reporting purposes:

An acquiree owns and operates a nuclear power plant. The license to operate that power plant is an intangible asset that meets the contractual-legal criterion for recognition separately from goodwill, even if the acquirer cannot sell or transfer it separately from the acquired power plant. An acquirer may recognize the fair value of the operating license and the fair value of the power plant as a single asset for financial reporting purposes if the useful lives of those assets are similar.

It would seem that this example could not meet the threshold since the guidance in ASC 805-10-55-9C(a) states that tangible and intangible assets may not be combined and considered similar assets. However, we believe that this example could lead to confusion if it is not further clarified. We also believe that it is not clear that combining a tangible and an intangible asset would be appropriate for financial reporting purposes and in what category such an asset should be classified.

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

Yes. We believe that the proposed guidance will reduce the cost and complexity of applying the definition of a business in many circumstances. In particular, we believe that the threshold related to a single asset or group of similar assets will provide a practical and expedient way of determining whether a set is an asset acquisition. In addition, we believe that an entity will need to use significant judgment in determining whether a group of identifiable assets is similar or whether a

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substantive process has been acquired. Therefore, although we do not think that the proposed amendments would eliminate all costs or complexity, we believe that they would improve the existing 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?*

While we defer to preparers' views on the time needed to implement the guidance in the proposed ASU, we would not expect the transition period to be significant. We also believe that entities should be allowed to early adopt this guidance. Permitting early adoption would help simplify financial statement reporting while not significantly affecting the usefulness of financial information. As long as early adoption is permitted, we would not object to granting entities other than public business entities additional time to implement the guidance in the proposed ASU if they believe that such additional time is necessary.

*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?*

Yes. We believe that the guidance in the proposed ASU should be applied prospectively. We believe that retrospective adoption may be burdensome and costly to many entities and that the expected benefits of retrospective application would not outweigh these costs.

*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. We believe that the examples clearly illustrate the application of the proposed guidance. We question whether so many examples are necessary but understand that the Board is trying to provide examples that apply to each of the industries that will be most affected by the proposed changes to the definition of a business. However, we suggest that the Board consider the following wording changes to the example in ASC 805-10-55-78:

Although the leases are at market ~~value rates~~, REIT concludes that the fair value of the in-place leases intangible asset ~~are~~ is significant and that the fair value of the gross assets acquired is not concentrated in either the leases or the tangible assets.

We would also propose including an example that clarifies how to apply the definition of a business to the acquisition of a professional services firm. In such cases, it may not be clear how to apply the definition of a business when substantially all of the fair value of the firm is related to the employees. Some may argue that if substantially all of the fair value of the acquisition is attributable to the employees, the threshold should apply, resulting in the recognition of an organized workforce intangible asset rather than goodwill since an organized workforce is separately recognizable in an asset acquisition. We acknowledge that ASC 805-10-55-9A requires that the asset or group of assets be *identifiable* and that *identifiable* is a business combinations concept that does not apply to asset acquisitions. However, that nuance may need to be clarified further.

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

Please see our response to Question 5.