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SENT VIA EMAIL

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

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

Dear Ms. Cosper:

Moss Adams LLP appreciates the opportunity to comment on the proposed Accounting Standards Update, *Business Combinations (Topic 805), Clarifying the Definition of a Business* (the "proposed ASU").

Moss Adams LLP is the largest accounting and consulting firm headquartered in the Western United States, with a staff of over 2,000, including more than 260 partners. Founded in 1913, the firm serves public and private middle-market businesses, not-for-profit, and governmental organizations.

We appreciate the Financial Accounting Standards Board's ("the Board") efforts to clarify the definition of a business and to provide more robust guidance to assist entities in determining which transactions should be accounted for as acquisitions (or disposals) of assets and which transactions should be accounted for as acquisitions (or disposals) of businesses. We are supportive of this effort and agree that there is a need for more prescriptive guidance as, in our experience, there is diversity in current practice as to how broadly the definition of a business should be applied with respect to acquisition accounting.

Although we are in support of many of the conceptual aspects of the proposed ASU, we do not necessarily agree that the amendments would result in a more consistent application of the definition of a business. The current definition is often applied broadly, as noted in the proposed ASU's basis for conclusions, and as such often results in a relatively uncomplicated conclusion that an acquisition should be accounted for as a business. As proposed, the new amendments would instead introduce a framework based approach to determining whether an acquisition meets the definition of a business, which inherently requires a large degree of judgment. We are in favor of a framework based approach and the use of reasonable judgment, as we believe it will meet the objective of narrowing the definition of a business when properly applied; however, we recognize that the use of such an approach may result in inconsistency of application. For example, when evaluating whether an acquired workforce is performing a substantive process pursuant to proposed paragraph 805-10-55-

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5A, significant judgment is required in determining whether a process is considered "ancillary or minor". Similarly, in the context of paragraph 805-10-55-5B, significant judgment would be required to determine whether an acquired process "cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs". We encourage the Board to further consider whether unintended areas of potential inconsistencies may exist in the proposed framework and to provide additional application guidance to limit inconsistencies in the application of the final ASU.

In addition, we offer the following specific observations and suggestions that we believe merit further consideration by the Board.

Screen to evaluate when a set is not a business
The proposed guidance in paragraph 805-10-55-9A provides for the use of a screen that if 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. We generally agree acquired assets meeting this criteria should be excluded from the definition of a business, and believe it is appropriate to include such a threshold in the proposed ASU.

We view the screen as being similar to a practical expedient which should be evaluated prior to the use of the framework described in paragraphs 805-10-55-5A through 5D. As currently proposed, the screen is not introduced in the amended guidance until after a robust discussion of the framework. When considering the practical flow of an entity evaluating whether it has acquired a business under the proposed ASU, we believe locating the screen after the framework in the Codification may be confusing to readers.

We suggest the Board move the guidance in paragraph 805-10-55-9A so that it precedes the framework in paragraphs 805-10-55-5A through 5D. Additionally, we believe a visual diagram would help entities apply the provisions of the proposed ASU, similar to the diagram included in ASC 810-10-55-206. Such a visual diagram could be further enhanced with references to the paragraphs relevant to evaluating each decision point.

Definition of an output and the definition of a business
The proposed ASU amends the definition of an output in paragraph 805-10-55-4 to be the result of inputs and processes applied to those inputs that provide goods or services to customers, other revenues, or investment income, such as dividends or interest. We agree with the Board that, as noted in paragraph BC41, the current definition of an output does not appropriately distinguish between an asset and a business. As such, we are supportive of this change. We commend the Board for aligning the definition of an output with the ability to generate goods or services provided to customers, consistent with Topic 606.

However, it is not clear to us why the proposed definition of a business in paragraph 805-10-55-3A diverges from the Board's proposed definition of an output in paragraph 805-10-55-4. Paragraph BC12 notes that the current definition of an output contributes to broad interpretations of what meets the definition of a business, yet the proposed ASU's definition of a business uses largely the same

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language as the current definition of an output ("…providing a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, member, or participants.")

We believe the proposed definition of a business should be consistent with the Board's proposed definition of an output, which may better address the observations made in paragraph BC12. If the proposed definition of a business is retained in the final ASU, we urge the Board to provide more specific discussion in the basis for conclusions as to why the definitions of an output in paragraph 805-10-55-4 differs from that of a business in paragraph 805-10-55-3A.

Examples

The proposed ASU offers various examples in paragraphs 805-10-55-52 through 55-88 to illustrate the application of the proposed guidance in paragraphs 805-10-55-4 through 55-9C. We appreciate the Board's efforts to provide practical examples of how to apply the proposed framework for determining whether an acquisition qualifies as a business. We believe these types of examples are extremely useful for entities as they apply the provisions of the amended guidance to the facts and circumstances surrounding their acquisitions. However, we believe some of the examples could be further developed to provide more clarity on the proper application of the proposed guidance.

For example, Case B in paragraphs 805-10-55-56 through 55-57 describes a pharmaceutical company that purchases another legal entity. Ultimately, the conclusion is reached that substantially all of the fair value of the gross assets acquired is concentrated in a single asset (meeting the threshold for the screen in paragraph 805-10-9A) and therefore the set does not meet the definition of a business. While we agree with this conclusion, the example does not demonstrate how the framework in paragraphs 805-10-55-5A through 5D would be applied to this fact pattern if the screen criteria were not met. Our view is that the example could be enhanced by offering a related scenario using the same fact pattern, but amended so that the transaction does not meet the threshold of the screen. This may provide users with a more complete understand of how the entirety of the proposed amendments might be applied to similar, but slightly different, fact patterns. (We noted that Case E in paragraphs 805-10-55-67 through 55-69 provides a similar example to Case B, however, there are several key differences in the fact pattern that make it unclear which specific facts are critical to the differing conclusions.) We recommend the Board contemplate each of the examples from this perspective and consider enhancing the examples with additional clarifications or alternate scenarios, as deemed appropriate.

Additionally, Case C in paragraphs 805-10-55-58 through 55-61 describes the acquisition of a set that does not have outputs. The example reaches the conclusion that the acquired set does not include both an input and a substantive process because it does not include an organized workforce (the criteria in paragraph 805-10-55-5A), and is therefore not considered a business. The example could be interpreted to mean that without an organized workforce there is no possibility of having a substantive process, which is inconsistent with definition of a process in paragraph 805-10-55-4. It is our understanding, based on the definition of a process in paragraph 805-10-55-4 and proposed guidance in 805-10-55-5A, that an organized workforce "may" provide the necessary processes that are capable of being applied to inputs to create outputs, but such a workforce is not required to be acquired in order to still meet the definition of a business when the set does not have outputs. It is

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unclear in Case C why a substantive process was necessarily not acquired as there are readily apparent inputs in the form of the license, the broadcasting equipment and the office building. It would be helpful if this example could indicate a scenario where a substantive process, other than the organized workforce, is included in the acquired set. An example of this nature would be helpful to emphasize that substantive processes may be acquired apart from an organized workforce, and at times such processes may be inappropriately discarded by the acquirer due to their entity specific plans to integrate the acquired set into the acquirer's existing processes.

We appreciate the opportunity to provide feedback and we hope that you find our comments meaningful. We look forward to the Board's future project of clarifying the guidance for partial sales or transfers of assets within the scope of Subtopic 610-20 and clarifying the reference to in-substance nonfinancial assets in Subtopic 610-20. If you would like to discuss our comments or have any questions, please contact Bret Rutter (Bret.Rutter@mossadams.com) or Porter Loud (Porter.Loud@mossadams.com) in our Professional Practice Group at (206) 302-6800.

Yours truly,

Moss Adams LLP