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

The Williams Companies, Inc. ("Williams") appreciates the opportunity to provide our comments to the Financial Accounting Standards Board ("Board") on the Proposed Accounting Standards Update regarding clarifying the definition of a business in relation to Business Combinations. Williams is a public company which, through its subsidiaries, gathers, processes and transports natural gas.

In general, we are supportive of the Board's efforts to clarify the definition of a business; however, we are concerned about (1) the operability of the definition of a substantive process and its relation to a skilled workforce and (2) inconsistencies that may arise in the application of the exemption for acquisitions concentrated in a single identifiable asset or group of similar identifiable assets. Below are our specific responses to the questions presented in the proposal.

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 support the Board's proposed concept definition 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 the ability to create outputs.

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 believe the criteria are appropriate, however, identifying a substantive process, as described in 805-10-55-5B, is somewhat inconsistent with the description of a process in 805-10-55-4b making it more difficult to differentiate something that qualifies as a substantive acquired process from an organized workforce with knowledgeable employees possessing appropriate technical abilities. We encourage the Board to provide more robust examples of substantive processes in an effort to clarify this differentiation. In particular, the examples provided should be expanded to identify the specific substantive processes that are present or absent in each illustration. For example, in "Case J: Acquisition of Oil and Gas Operations," it states that the acquired set "includes operational processes related to extracting and transporting the oil and gas, which are in place and facilitated through the existing infrastructure;" however, it does not specifically identify those operational processes. It is also somewhat confusing to the reader as the example further states that to replace those processes would require replacement of the equipment and infrastructure, which we generally view as inputs rather than processes.

In the energy sector, many processes are inseparable from the skilled, knowledgeable workforce performing those processes. The workforce may be the process. Examples of this include operating the control systems that direct the flow of commodities through gathering and transportation pipelines; operating the processing, fractionation, and other technical plant facilities; active drilling of oil and gas wells; etc. Even if an entity acquires the "processes" (computer systems that control various operational activities, operation and maintenance instructional manuals), a skilled, knowledgeable workforce is needed to successfully run those operational processes. Paragraph 805-10-55-4b states that "these processes typically are documented, but an organized workforce having the necessary skills and experience following rules and conventions may provide the necessary processes that are capable of being applied to inputs to create outputs." This wording seems to imply that the processes may not exist if an organized workforce with the necessary skills is missing from the acquisition, yet in the example Case J paragraphs 805-10-55-86 through 805-10-55-88 the entity evaluated the processes using the criteria in paragraphs 805-10-55-5B(b) and concluded the set was a business even though the knowledgeable workforce required for the substantive processes was not present.

Acquisitions without any workforce may include a transitional services agreement that is not considered part of the acquisition. Such a transitional services agreement provides the temporary ability to perform the substantive processes on a short interim basis while the buyer replaces the workforce. It is not apparent whether such an agreement may be considered a contractual arrangement that takes the place of employees (805-10-55-5D), or since it is a short-term agreement, it may indicate that the set is not a business because the outputs would be incapable of being generated on an ongoing basis without the transitional services agreement.

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 believe eliminating the criteria in 805-10-55-5A through 55-5D would not affect the operability of the guidance, but it may result in greater divergence in practice without the additional clarification provided in these paragraphs. As such, we support including the criteria presented in these paragraphs.

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 agree that more than an insignificant amount of goodwill may indicate a process is substantive. We also note that by the time an entity determines more than an insignificant amount of goodwill exists, the entity may have already concluded the acquired process is substantive and the transaction would qualify as a business combination.

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 concur with the proposed changes to the definition of outputs and agree that outputs should be focused on revenues generated by goods and services provided to customers.

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 agree with the concept that if substantially all the fair value of the gross assets acquired is concentrated into a single asset, the set is not a business and concur that it is an appropriate threshold. As illustrated in every example in the proposal, an entity must first evaluate the criteria in paragraphs 805-10-55-9A through 9C before moving on to the criteria in paragraphs 805-10-55-5A through 5D; therefore, we encourage the Board to consider reorganizing the evaluation criteria included in the proposal. We believe it would provide more clarity to the evaluation process if the threshold criteria in 805-10-55-9A through 9C is presented as the first step in the evaluation process.

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?

We believe the application of this threshold to a group of similar identifiable assets is operable. However, the criteria in 805-10-55-9C(a) may cause inconsistent results when applied to very similar circumstances. For example, consider a single tangible nonfinancial asset that is attached to and cannot be physically removed and used separately from the land it is on (e.g. a building or a pipeline). In the energy sector, acquisition of pipeline assets commonly includes the associated land or right-of-way. If the land is owned, the building/pipeline would be combined with the land and considered a group of similar assets; however, if the land is leased (building) or the subject of a right-of-way agreement (pipeline), the building/pipeline would not be able to be combined with the lease or right-of-way as these are intangible assets. Both cases are very similar situations, but due to the restrictive criteria outlined in 805-10-55-9C(a), it would result in one meeting the "substantially all" threshold in 805-10-55-9A and the other not meeting the threshold.

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

To the extent the determination of whether or not a set of acquired assets qualifies as a business can be made qualitatively without the requirement to perform extensive valuation work, the cost and complexity of applying the definition of a business will be reduced.

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 believe most entities could adopt the amendments included in this proposal relatively quickly and that early adoption should be permitted. The adoption time required by other than public business entities should not differ from that of public business entities.

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 prospective application is appropriate. The proposal may be difficult and costly to apply retrospectively for acquisitions that occurred prior to the effective date. If prospective application of the proposal is required, no explicit transition disclosures would be needed.

Other Comments:

In paragraph 805-10-55-3A, the proposal states "to be considered a business, an integrated set must meet the requirements in paragraphs 805-10-55-4 through 6 and 805-10-55-8 through 9C." We view portions of these sets of paragraphs as mutually exclusive. If an integrated set meets the requirements in paragraph 805-10-55-9A where substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, it is not considered a business and no further evaluation of the set is necessary. We encourage the Board to clarify this discrepancy.

We appreciate the opportunity to comment on this matter. We would be happy to provide any additional information you may require or discuss our comments further.

Sincerely,

Ted Timmermans
Vice President Controller and Chief Accounting Officer
The Williams Companies, Inc.