

---

The Goldman Sachs Group, Inc. | 200 West Street | New York, NY 10282  
Tel: 212-902-7052 | Fax: 212- 291-5573 | email: Tim.Bridges@gs.com

Timothy Bridges  
Managing Director  
Global Head of Accounting Policy



---

January 25, 2016

Mr. Russell G. Golden  
FASB Chairman  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

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

Dear Mr Golden:

Goldman Sachs appreciates the opportunity to comment on the Financial Accounting Standards Board's ("FASB" or the "Board") Proposed Accounting Standards Update "Business Combinations - Clarifying the Definition of a Business ("the Proposal").

We support the objective of the proposal in providing a more robust framework for the analysis of whether a set of assets and activities is a business and in aligning the application of the definition of a business between US GAAP and IFRS filers. We agree with the basic provision that to be considered a business, a set must include, at a minimum, an input and a substantive process that together contribute to the ability to create outputs.

We understand that this Proposal forms the first phase of a project, additional phases of which will firstly clarify the derecognition rules in respect of real estate which is not a business and look at other differences between the accounting treatment of acquisitions and dispositions of assets and businesses. While we understand that completion of the full project will be a longer term goal and hence support the issuance of the Proposal as a means to achieve some short term improvements, we would urge the Board to continue to focus on the latter phases which we believe are equally important. We would also note that our comments on the current Proposal and impact thereof must necessarily be caveated by a need to evaluate the overall impact of the

project. It is difficult to comment fully on the changes in definition/parameters of a business when the impact on such issues as derecognition is not clear.

Our detailed responses to the questions are attached.

Thank you for the opportunity to provide our views. If you have any questions regarding this letter, please do not hesitate to contact me at 212-902-7052 or Charlotte Pissaridou at +44 207 5522104.

Sincerely,

A handwritten signature in black ink that reads "Timothy J. Bridges". The signature is written in a cursive style and is underlined with a single horizontal line.

/s/ Timothy Bridges

Appendix

***Appendix – Responses to questions***

***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?*

**Response:** We agree in principle with this definition. We would however note that there is often limited ability to clearly identify an input or substantive process - or to distinguish between the two - for a service business. For example in a consultancy business, the detailed knowledge and expertise of employees could be regarded as an input or a process. Paragraph 805-10-55-4 includes employees as an input but “an organized workforce having necessary skills and experience” as a process.

We support the clarification that an acquisition cannot be a business if all the substantive processes are those of the acquirer.

***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?*

**Response:** We agree with the criteria and believe they are in general appropriate. We are supportive of the distinction between the two different sets of activities. We believe the guidance in the basis for conclusions gives more colour and could be usefully incorporated in the body of the Proposal. We do have a number of comments on the detail of the criteria as follows:

- 805-10-55-5A - The interaction between substantive and critical seems complex and unclear. It seems that a process is only considered substantive for a specific set of activities if it is a critical process but this should be clarified.
- 805-10-55-5A-a - We believe that it is more appropriate to define the meaning of critical rather than giving an example of something which is (self-evidently) not critical. This may be interpreted as meaning that anything which is not ancillary or minor is critical which we do not believe is the intention.
- 805-10-55-5A-b - The term organised workforce is not clearly defined.
- 805-10-55B-c - We believe this criterion could be subsumed in the previous criterion as a unique or scarce resource should require significant cost or effort to replace.
- 805-10-55-5C - We do not fully understand the relevance and applicability of this paragraph; for example what does the phrase “an assumed contractual arrangement” mean in the context of the paragraph. We believe that all contracts acquired should be included in the analysis. Furthermore the items listed appear to be inputs so we are unsure what the impact is of removing them from the analysis in paragraph 805-10-55-5b which

is mainly focused on processes. We believe it is appropriate to include them as acquired inputs however when applying the analysis.

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

**Response:** We believe the analysis would be operable without the guidance (and indeed this is currently the case) and would just require an application of the definition in paragraph 805-10-55-4. We believe the criteria are helpful as they effectively define the term “substantive process” in the different scenarios.

**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?*

**Response:** We believe the indicator is appropriate and operable. The existence of goodwill implies that the entity is acquiring something other than the recognised assets (which could be a substantive process). We however recognise that care needs to be taken not to subsume other intangibles within goodwill – the presence of a large goodwill balance may be indicative merely that other intangible assets have not been identified. We hence agree it should just be an indicator and hence rebuttable.

**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?*

**Response:** We agree that for purposes of evaluating whether a transferred set is a business, outputs should be focused on goods and services provided to customers. We are concerned that by attempting to create a limited and exclusive list, other valid benefits may be omitted.

**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?*

**Response:** We have a number of concerns over this proposed threshold. We appreciate that it may be included in order to enable entities to assess an acquisition by applying a relatively simple quantitative analysis. However, we do not believe the threshold is always appropriate and may give rise to a different assessment than would be achieved through assessing the set versus the elements described in paragraphs 805-10-55-4 or 805-10-55-5A & B and hence use of this rule as a determinative criterion may be inappropriate in many circumstances.

The threshold requires comparison of the fair value of a single asset with the overall fair value of the gross assets acquired. It is not clear whether the gross assets include or exclude goodwill. If the gross assets acquired do not include goodwill this seems to conflict with the criteria in paragraph 805-10-55-9. The application of this threshold in a situation where an acquisition consists of a single main asset but where the amount paid is considerably more than the fair value of the asset acquired because of the presence of goodwill, would compel a reporting entity to treat the acquisition as an asset acquisition, which seems contrary to paragraph 805-10-55-9 where the presence of goodwill is indicative of the presence of a substantive process and hence potentially a business. We believe that any threshold should compare the fair value of a single asset with the fair value of consideration paid.

The assessment of what constitutes a single asset appears inconsistent. Whereas we support the notion that assets which cannot be separated without considerable costs (e.g. land and building) should be regarded as one, we do not believe that this notion is applied consistently within the Proposal. For example, in Case H a lease is separated from the related building, and in Case J mineral rights are considered separate from the mining equipment. In both cases it would seem that the assets could not be separated without considerable cost. Further it is not clear how this assessment would be applied even for tangible nonfinancial assets. For example, there may be significant cost to remove equipment from land, but its removal may result in the land increasing in value by an amount greater than the costs incurred. Under the criteria in the Proposal, however, the presence of either significant cost **or** reduction in value of either piece is enough to prohibit separation.

We believe that the use of the threshold criteria ignores situations where substantive processes may exist but have relatively little value attributed to them. For example, a hotel business may fail the criteria as the hotel property itself may constitute substantially all the fair value of assets acquired, however there may be substantive processes that should result in this being treated as a business.

We therefore think that this threshold should, at most, be used as an indicator of the nature of an acquisition rather than a determinative factor.

***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?*

**Response:** We are not clear on the definition of similar in this context or how this would be applied in practice. Paragraph 805-10-55-9C gives descriptions of items which cannot be considered similar but there is no positive definition of the term.

The illustrations in general deal with situations where the assets are in clearly different classes of asset and hence cannot be considered similar. Only one illustration deals affirmatively with this issue - Case A - which says that the single-family homes are considered similar assets as “the nature of the assets... are similar”. We think further analysis and explanation needs to be added as to how “nature” is assessed and whether nature is the only requirement.

For example, a shopping mall may consist of both retail and commercial properties. It is unclear from the guidance whether these would be deemed similar or dissimilar assets and what the basis for such a conclusion would be. Similarly if the mall also included residential property, would this be considered a similar asset? We also believe that clarification is needed regarding whether location needs to be taken into account in determining whether a group of assets are similar? For example, if residential properties are spread over a number of locations, could they still be considered a single group of similar assets?

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

**Response:** We are still completing our analysis of the impact. While noting that diversity may exist, we believe that current practice requires relatively little focus or complex analysis of what is a business in certain industries, such as Real Estate; the default treatment is generally to conclude an acquisition is a business. The Proposal requires more complex analysis as to the criteria including a quantitative assessment with regard to fair value. This may add to the complexity of the process and will, at the least, result in a cost on transition. Notwithstanding that, we do believe that applying the definition of a business can be complex and that in aggregate, the proposed guidance will reduce complexity

***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?*

**Response:** We do not believe a significant amount of time would be necessary to adopt the amendments as we believe the amendments should be applied prospectively and need to be addressed on a transaction by transaction basis.

We support permitting early adoption.

**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?*

**Response:** We agree that the amendments should be applied prospectively to future transactions. We do not believe that retrospective application would be practical given wide reaching implications of reclassifying an historical asset acquisition as a business and vice versa.

**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?*

**Response:** As described in our response to Question 7, we believe that the examples should additionally focus on the definition of similar assets and give examples which illustrate this criteria.

We also believe it would be useful to highlight those scenarios which are currently being treated as businesses but which the Board believe would change under the proposal and which would be aligned with the treatment under IFRS.

We also note that the IASB intends to include an illustration in respect of financial services. We would urge the use of consistent examples by the IASB and the FASB and believe that a financial services example would be helpful.

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

**Response:** We are not aware of any unintended consequence.