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August 5, 2016

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: Exposure Draft, *Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets* (File Reference No. 2016-250)

Dear Technical Director:

We appreciate the opportunity to comment on the proposed ASU, *Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets.*

We support the Board's objective to clarify the scope of asset derecognition guidance and address partial sales of nonfinancial assets. We believe that the proposed amendments would reduce complexity by clarifying when an entity should apply the asset derecognition guidance and specifying how to account for partial sale transactions.

We also support the proposal to require an entity to apply the asset derecognition guidance when it sells or transfers a subsidiary or group of assets in which substantially all of the fair value is concentrated in nonfinancial assets and the set is not a business, and the proposed derecognition and measurement principles.

However, we believe that the Board could simplify the guidance by modifying the unit of account guidance and redefining *in substance nonfinancial asset*. We believe that the Board should identify the unit of account as the in substance nonfinancial asset group and define in substance nonfinancial asset as a subsidiary or disposal group in which substantially all of the fair value of the group or subsidiary is concentrated in nonfinancial assets. We believe these changes would align the models for nonfinancial asset derecognition and long-lived asset impairment, and would simplify the guidance. We also believe the Board could make these changes and preserve its proposed derecognition and measurement principles.

KPMG's responses to the Board's specific questions and further information about our suggested changes are included in the Appendix.

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If you have questions about our comments or wish to discuss the matters addressed in this comment letter, please contact Kimber Bascom at (212) 909-5664 or kbascom@kpmg.com, or Angela Storm at (212) 909-5488 or astorm@kpmg.com.

Sincerely,

KPMG LLP

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Appendix – Responses to the Board's Questions

Question 2 – Businesses excluded from scope of Subtopic 610-20

Do you agree that transfers of all businesses (including real estate businesses) or nonprofit activities should be excluded from the scope of Subtopic 610-20? If not, please describe the types of businesses that should be included in Subtopic 610-20 and how you would define them.

Yes, we agree that transfers of all businesses and nonprofit activities should be excluded from the scope of Subtopic 610-20. We believe consistently characterizing a set as either a business or an asset for purposes of recognition and derecognition would simplify the guidance.

Question 3 – Further comments on *Clarifying the Definition of a Business*

Given that the amendments in this proposed Update would require all businesses to be excluded from Subtopic 610-20, do you have any further comments on the appropriateness or operability of the amendments in the proposed Accounting Standards Update, Business Combinations (Topic 805): Clarifying the Definition of a Business?

As stated in our comment letter about the proposed ASU, *Clarifying the Definition of a Business*, we believe that the Board should modify certain aspects of that proposal and expand examples to help practitioners consistently apply the guidance.

Our suggested modifications include:

1. Simplifying the threshold test to group contracts that derive their value from a specific asset with that asset. This would include combining the value of an in-place lease intangible, including an intangible asset or liability arising from favorable or unfavorable lease contract terms, with the related leased asset in the evaluation;

2. Disallowing identifiable assets with significantly different risk characteristics from being considered similar assets for purposes of the threshold test;

3. Expanding and adding examples to better illustrate asset grouping.

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We believe that our suggested simplification to the threshold test would result in more real estate transactions being included in the scope of Subtopic 610-20, which we understand to be consistent with the Board's intent.

Question 4 – In substance nonfinancial assets

The scope of Subtopic 610-20 includes in substance nonfinancial assets, which are defined in the Master Glossary and described in paragraphs 610-20-15-4 through 15-10 in this proposed Update. Is it appropriate to include those transactions within the scope of Subtopic 610-20, and would the guidance be operable? If not, why and what other alternatives would you suggest?

We support the Board's proposal to require an entity to apply the Subtopic 610-20 derecognition guidance when it sells or transfers a subsidiary or group of assets in which substantially all of the fair value is concentrated in nonfinancial assets.

However, we believe that the Board could simplify the guidance by modifying the unit of account and redefining *in substance nonfinancial asset*. We believe that the Board should identify the unit of account as the in substance nonfinancial asset group and define in substance nonfinancial asset as a subsidiary or disposal group in which substantially all of the fair value of the group or subsidiary is concentrated in nonfinancial assets. We believe these changes would align the models for nonfinancial asset derecognition and long-lived asset impairment, and would simplify the guidance.

Redefining in substance nonfinancial asset would simplify the guidance by:

- *Aligning the model for nonfinancial asset derecognition with the long-lived asset impairment model.*

  When an entity concludes that a *disposal group* is held for sale, it tests the group for impairment and measures the impairment based on the fair value of the group. A disposal group is a "long-lived asset or assets to be disposed of by sale or otherwise [that] represents assets to be disposed of together as a group in a single transaction and liabilities directly associated with those assets that will be transferred in the transaction."

  We believe that an entity that would account for the sale of a group or subsidiary under Subtopic 610-20 often would have been required, in a previous period, to test the group or subsidiary for impairment as a disposal group held for sale. For that reason, we believe that the Board should define in substance nonfinancial asset at the disposal group level and align the unit of account between the asset derecognition and long-lived asset impairment guidance.

- *Clarifying that the guidance in Subtopic 610-20 applies to an individual financial asset only when an entity sells a group or subsidiary that includes that financial asset.*

  While the proposed amendments state a transaction accounted for in its entirety under Topic 860 is not subject to Subtopic 610-20, we believe the proposed guidance could be interpreted to say that the sale of a financial asset within a subsidiary in which substantially all of the fair value is concentrated in nonfinancial assets is subject to Subtopic 610-20, even if the entity is selling the asset individually. We believe the Board could clarify that an entity would derecognize a financial asset under Subtopic 610-20 only when it derecognizes the group or subsidiary including the financial asset by defining an in substance nonfinancial asset as the group (or subsidiary) and identifying the unit of account as the in substance nonfinancial asset.

- *Eliminating certain inconsistencies in describing the items that are in scope and out of scope.*

  The proposal sometimes suggests that an in substance nonfinancial asset is the group or subsidiary and other times refers to it as an individual asset in the group or subsidiary. We believe this inconsistency may confuse financial statement preparers and result in diversity in application.

  For example, the proposal states that an in substance nonfinancial asset does not include an investment that is being accounted for within the scope of Topic 320 on investments – debt securities. However, an in substance nonfinancial asset is defined as an asset that is included in a consolidated subsidiary in which substantially all the fair value of the assets is concentrated in nonfinancial assets. If an entity sells its controlling interest in a consolidated subsidiary in which substantially all the fair value is concentrated in nonfinancial assets and that subsidiary holds a debt security, we believe the entity could interpret the guidance to say either that the debt security is an in substance nonfinancial asset because it is included in the subsidiary, or that it is not because the definition of in substance nonfinancial asset does not include such investments. Identifying the unit of account as the in substance nonfinancial asset group rather than an individual asset would avoid diversity in applying the guidance.

Question 5 – Subsidiaries that are not in substance nonfinancial assets excluded

Paragraph 610-20-15-3(k) in this proposed Update excludes subsidiaries that do not have in substance nonfinancial assets entirely from the scope of Subtopic 610-20. Alternatively, the Board could have decided to apply the guidance in paragraph 606-10-15-4 and separate each asset in a subsidiary that is not a business into different derecognition models. Would this alternative approach be operable for partial sales in which the seller retains an interest in the former subsidiary (see also paragraph BC34)? If yes, please provide examples of how this would be applied. If operable, do you support such an approach?

Although we believe these transactions are not common, we do not believe the alternative approach is operable, particularly for partial sales in which the seller retains an interest in the former subsidiary. We believe the guidance in Subtopic 810-10 is most appropriate for these transactions because it provides the seller with a framework to account for both a retained controlling and noncontrolling financial interest. We believe requiring an entity to derecognize each separate asset under different accounting models would add complexity and fail to appropriately consider the legal characteristics of a subsidiary structure.

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Question 6 – Unit of account

When transferring an ownership interest in a subsidiary that is an in substance nonfinancial asset, do you agree that the unit of account should be each distinct nonfinancial asset in the subsidiary?

As discussed in our response to Question 4, we believe that the Board should define in substance nonfinancial asset as a subsidiary or disposal group in which substantially all of the fair value is concentrated in nonfinancial assets, and should identify the unit of account as the in substance nonfinancial asset. We believe these changes would align the models for nonfinancial asset derecognition and long-lived asset impairment, and would simplify the guidance.

We agree with the Board that in practice, a seller typically will transfer assets within a group or a subsidiary at the same time and that it would not need to separate and allocate consideration to each distinct asset. Thus, we believe the Board should simplify the guidance and define the unit of account as the disposal group or subsidiary.

We believe the Board could make these changes and preserve its proposed derecognition principle of Topic 606 under which the group is derecognized when control of the underlying assets transfers to the buyer. We acknowledge that accepting our recommendation would introduce complexity if *control* of an individual asset within the group or subsidiary does not transfer. This could occur if the seller has a call option on a specific asset within the group or subsidiary. We believe that in that situation, a seller of a subsidiary would need to evaluate the indicators of control for the group as a whole and consider whether the call option is significant enough that it prevents the subsidiary from directing the use of, and obtaining substantially all of the benefits from, its portfolio of assets. A seller of a group would need to make the same evaluation and consider whether the asset subject to the call option is truly within the disposal group. We believe a parent must perform a similar analysis when it evaluates whether it retains a controlling financial interest when derecognizing groups or subsidiaries that are businesses under Subtopic 810-10.

We also believe that this approach is more consistent with the proposed measurement principle that requires the seller to characterize a post-sale ownership interest in a subsidiary as consideration received and measure it at fair value.

Question 7 – Retained interest measured at fair value

Do you agree that an entity should measure a retained interest in a nonfinancial asset at fair value? If not, why?

Yes. We believe that an entity should measure a retained interest at fair value. When an entity retains or receives a noncontrolling interest in a nonfinancial asset, or retains or receives an in substance nonfinancial asset, we believe that the transferor receives a financial asset that is fundamentally different from the nonfinancial asset that it transferred.

We also believe that measuring retained interests at fair value would appropriately align the accounting for transactions involving assets and businesses and is consistent with the measurement guidance in Topic 606 on noncash consideration.

Question 8 – Transfer of control

Paragraphs 610-20-40-3 through 40-10 provide guidance that would assist an entity in determining when it transfers control of distinct nonfinancial assets in a subsidiary. Would this guidance be operable? If not, why?

We believe that a reporting entity first should determine whether it has retained a controlling financial interest in the subsidiary under Topic 810. If it no longer has a controlling financial interest, the reporting entity should apply the guidance in Topic 606 to determine whether the subsidiary has control of the assets. However, as previously discussed in our response to Question 6, we believe that the seller should evaluate whether the subsidiary holding the assets can direct the use of, and obtain substantially all of the benefits from, the portfolio of assets within it.

Question 9 – Transition method

Do you agree with providing an entity with the option to apply different transition methods to Subtopic 610-20 and Topic 606? If not, why?

Yes. We believe the Board should allow entities to have different transition methods under Subtopic 610-20 and Topic 606.

Question 10 – Definition of a business

The proposed amendments on clarifying the definition of a business would require prospective adoption. If those proposed amendments are finalized before Subtopic 610-20 becomes effective, should an entity utilize either:

> *a. The definition of a business effective at the time of the transaction*
> *b. The revised definition of a business when implementing Subtopic 610-20?*

We believe that entities should use the proposed revised definition of a business when implementing Subtopic 610-20. Because of the interdependency between the projects, using the revised definition would result in outcomes that are consistent with the Board's objectives for each project.

We also recommend that the Board consider aligning the effective dates of these proposed amendments with the amendments in the proposed ASU, *Clarifying the Definition of a Business.*

Question 11 – Transfers of equity method investees

Do you agree with the proposed amendments to eliminate the exception in Topic 860 for transfers of equity method investees that were formerly considered in substance nonfinancial assets or in substance real estate? If not, please describe the consequences of applying the guidance in Topic 860 instead of Subtopic 610-20.

Yes. We believe that removing the exception in Topic 860 for transfers of equity method investees that were formerly considered in substance nonfinancial assets or in substance real estate would simplify the scope of the affected derecognition models.

Question 12 – Cost and complexity

Overall, do you agree that the proposed amendments would reduce the cost and complexity of evaluating the derecognition of nonfinancial assets? Why or why not?

Yes. We believe that the proposed amendments would reduce complexity by clarifying when an entity should apply the asset derecognition guidance and specifying how to account for partial sale transactions.

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