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August 4, 2016

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

File Reference No. 2016-250
Re: Proposed Accounting Standards Update, *Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*

Dear Ms. Cosper:

Deloitte & Touche LLP appreciates the opportunity to comment on the FASB's proposed Accounting Standards Update (ASU) *Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*.

We support the Board's efforts to clarify and improve the guidance in ASC 610-20 to reduce potential diversity in practice. However, as discussed below in the appendix, we believe that the Board should make certain amendments to the proposed guidance before finalizing it.

We agree with the proposed ASU that a contract in which substantially all the fair value of the assets is concentrated in nonfinancial assets should be within the scope of ASC 610-20 and that all businesses or nonprofit activities and all investments should be excluded from the guidance's scope. However, we are concerned about the potential inconsistencies in derecognition guidance for subsidiaries that are not businesses. Specifically, we believe that structuring opportunities may arise since some subsidiaries would be subject to the proposed ASU's requirements because substantially all the fair value of their assets is concentrated in nonfinancial assets while other subsidiaries may have substantial financial assets and may therefore only be subject to the derecognition guidance in ASC 810-10. This issue arises as a result of inconsistent application of the principles for assessing control in ASC 810-10 and ASC 606 (and ASC 860). For example, retention of a call option on a transferred item indicates retention of control under one standard but may not under one of the other standards.

Under ASC 610-20-15-3(k), the derecognition of a subsidiary in which substantially all the fair value of the assets is not concentrated in nonfinancial assets is outside the scope of ASC 610-20 and would typically be derecognized in accordance with the consolidation guidance in ASC 810-10. Because the guidance in ASC 810-10 on determining when an entity transfers control differs from the guidance in ASC 860 and ASC 606, we are concerned that the legal form of the transaction could result in different accounting for economically similar transactions. Accordingly, we recommend that the Board either (1) eliminate the differences and thereby align the control model in ASC 810-10 with that in ASC 606 and ASC 860 or (2) stipulate that the guidance in ASC 606-10-15-4 also applies to subsidiaries in which substantially all the fair value of the assets is not concentrated in nonfinancial assets.

The appendix below contains our responses to the proposed ASU's questions for respondents and suggests certain improvements to the proposed amendments.

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We appreciate the opportunity to comment on the proposed ASU. If you have any questions concerning our comments, please contact Kristin Bauer at (203) 563-2777.

Yours truly,

Deloitte & Touche LLP

cc: Robert Uhl

Appendix
Deloitte & Touche LLP
Responses to Questions for Respondents Related to the Proposed ASU

Question 1: Is the list of transactions that are excluded from Subtopic 610-20 in paragraph 610-20-15-3 complete? If not, please describe what is missing.

Yes, we are not aware of any transactions that are missing from this list.

In addition, we note that the existing guidance on derecognition of in-substance real estate in ASC 360-20-55-71 through 55-76 clarifies that, in certain situations, a reporting entity might cease to have a controlling interest in a single-purpose entity holding real estate and nonrecourse debt that has not been legally extinguished. This guidance specifies that, in such circumstances, it is not appropriate for the reporting entity to derecognize the in-substance real estate until the reporting entity's interest in the real estate is conveyed to the lender or a third-party purchaser and the single-purpose entity is released from its debt obligation. Because the proposed amendments would eliminate ASC 360, we recommend that the Board include similar clarification in ASC 610-20.

Question 2: 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 (including real estate businesses) or nonprofit activities should be excluded from the scope of ASC 610-20.

In addition, we continue to support the Board's efforts to clarify the definition of a business in its proposed ASU on this topic ("phase 1" of this project). We believe that, in issuing the two proposed ASUs, the Board intends to emphasize that some real estate transactions (1) are more appropriately classified as assets (rather than as businesses) and, (2) as a result of being classified as assets, should be subject to the derecognition guidance in ASC 610-20 (rather than ASC 810-10).

Question 3: 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?

We continue to support the Board's efforts to clarify the definition of a business. At this time, we do not have any additional comments on the Board's proposed ASU on that topic other than those provided to the Board in our January 22, 2016, letter.

Question 4: 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?

In principle, yes, we agree that a contract in which substantially all the fair value of the assets is concentrated in the nonfinancial assets should be within the scope of ASC 610-20 and that this scope should exclude (1) a group of assets or a subsidiary that is a business or nonprofit activity and (2) all investments. However, as we discuss more fully in our response to Question 5, we are concerned about some of the ramifications of this definition. Additionally, we find the scoping which uses this definition and the secondary step on derecognition to create some additional complexity.

In addition, we have observed inconsistency in the proposed ASU's use of the terms "contract," "transaction," and "asset(s)" and recommend that the Board clearly define these terms and use them consistently. For example, the ASC master glossary defines the term "contract" in relation to the transfer of nonfinancial assets that do not constitute a subsidiary; however, ASC 610-20-40-6 uses the same term with respect to the transfer of a subsidiary.

Question 5: 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?

We believe that the alternative approach would be operable for transfers of subsidiaries (including partial sales in which the seller retains an interest in the former subsidiary). We believe that such a transaction would, in substance, be the same as a transaction in which the entity enters into a contract to transfer individual assets (that are not a subsidiary). However, we have reservations regarding how the form of the transaction could affect the resulting accounting.

Specifically, we are concerned that, because the guidance in ASC 810-10 on determining when an entity transfers control differs from that in ASC 860 and ASC 606, entities could achieve different economic results on the basis of how the transaction is structured. For example, consider a scenario in which an entity transfers a group of nonfinancial assets and has a right but not an obligation to repurchase such assets (i.e., has a call option). If the group of nonfinancial assets is transferred within a subsidiary that does not meet the proposed ASU's definition of an in-substance nonfinancial asset, the subsidiary (including the nonfinancial assets) would be derecognized in accordance with the consolidation guidance in ASC 810-10. Because ASC 810-10 does not prohibit an entity that has a call option from concluding that control has been transferred, such an entity can derecognize a subsidiary (including nonfinancial assets). However, if the same group of nonfinancial assets is transferred in a contract (and not within a subsidiary), such nonfinancial assets would be evaluated for derecognition under ASC 606. In such cases, an entity would conclude — in accordance with the guidance on repurchase features in ASC 606 — that because of the call option, it does not transfer control of the nonfinancial assets and would not derecognize such assets.

We therefore recommend that the Board perform a comprehensive review of the existing derecognition models (i.e., the consolidation model in ASC 810-10, the financial asset derecognition model in ASC 860, and the revenue model in ASC 606) and align the determination of when an entity transfers control under ASC 810-10 with that under ASC 860 and ASC 606. Aligning the control models would reduce complexity, make the scope of the guidance more appropriate, and ensure that entities do not circumvent critical aspects of the control guidance in ASC 606 and ASC 860.

However, we acknowledge that the Board is most likely not in a position to redeliberate the various control models given its recent finalization and current implementation efforts. Accordingly, we recommend an alternative, two-step approach to derecognizing a subsidiary that the proposed ASU would exclude from the scope of ASU 610-20. Under this alternative approach, the entity would first determine whether it retains a controlling financial interest in the subsidiary. If the entity concludes that it no longer has a controlling interest in the subsidiary, it would consider specific guidance that applies to each separate asset in the subsidiary (in a manner similar to its consideration of the guidance in ASC 606-10-15-4). As a result, the accounting would be identical regardless of the legal form of the transaction.

Question 6: 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?

Yes. We agree that when an entity transfers an ownership interest in a subsidiary that is an in-substance nonfinancial asset, the unit of account should be each distinct nonfinancial asset in the subsidiary. In fact, in a manner consistent with the views we express in Question 5, we would expand this conclusion regarding the appropriate unit of account to apply for derecognition purposes to all nonbusiness subsidiaries, including nonfinancial assets.

Question 7: Do you agree that an entity should measure a retained interest in a nonfinancial asset at fair value? If not, why?

We accept the Board's argument in paragraph BC66 of the proposed ASU that the measurement of the retained interest in a nonfinancial asset should be aligned with the consolidation guidance in ASC 810-10. Further, we agree with the assertion that this model will reduce complexity and therefore simplify GAAP, as discussed in BC68. Specifically, transactions within the scope of ASC 610-20 are, by their nature, not recurring items in an entity's financial statements; therefore, it is appropriate to remeasure any retained interest in a nonfinancial asset at fair value to be consistent with the deconsolidation model in ASC 810-10.

Question 8: 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 this guidance is operable.

Nevertheless, we believe that the Board could help entities implement the final guidance by clarifying the unit of account for scope and derecognition purposes. We encourage the Board to consider including in the final standard a table such as the following:

		Type of Arrangement — Asset Sale Through a:	
		Contract	Subsidiary
Unit of Account for:	Scope	Contract — considering all assets subject to the contract(s)	Subsidiary — looking through the subsidiary to the underlying assets
	Derecognition	Distinct nonfinancial asset	Distinct nonfinancial/ financial asset

Question 9: 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?

In principle, we agree that an entity should have the option of applying a different transition method to ASC 610-20 than it does to ASC 606. However, we observe the complexity created by linking the transition guidance required for ASC 610-20 transactions with the transition provisions of ASC 606. We recommend that the Board remove this link and establish distinct transition guidance for transactions within the scope of ASC 610-20.

In addition, we encourage the Board to consider a prospective option for transition after conducting additional outreach with financial statement preparers and users. We can understand why the Board continues to prefer retrospective application and the concerns raised in paragraph BC85 regarding contracts with "a long remaining life (for example, the sale of intellectual property with variable consideration)"; however, given (1) that the transactions within the scope of ASC 610-20 by their nature should not be recurring and (2) the interaction of the proposed ASU with phase 1 of the project, we see the merit of considering an option based on a cost-benefit analysis of prospective application.

Question 10: 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?

Assuming the Board continues to require a retrospective adoption method, we recommend that an entity have the option of using either (1) the definition of a business effective at the time of the transaction or (2) the revised definition of a business when implementing ASC 610-20. Offering entities a prospective transition option (or requirement) would mitigate the transition challenges related to the change in definition.

Question 11: 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 agree with the proposed amendment to eliminate the exception in ASC 860 for transfers of equity method investees that were formerly considered in-substance nonfinancial assets or in-substance real estate.

Question 12: 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?

While we appreciate the Board’s efforts to simplify the guidance on derecognition of nonfinancial assets, we observe that the proposed amendments can be challenging to navigate and are at times difficult to understand. Therefore, we encourage the Board to more clearly and concisely outline the requirements and intended outcomes (e.g., by using flowcharts, tables, or examples). In addition, we encourage the Board to thoroughly educate affected entities on the proposals and final standard to ensure a smooth transition.