



August 5, 2016

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

RE: File Reference No. 2016-250

Dear Ms. Cospier:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the FASB's proposed Accounting Standards Update, *Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets* (Subtopic 610-20) (the "Exposure Draft"). We commend the FASB for its efforts to simplify financial reporting while maintaining or enhancing decision useful information for investors.

In our experience, preparers have been challenged by the various derecognition models that exist today for transactions involving nonfinancial assets. Many stakeholders are also concerned that the accounting treatment is often different for transactions that are economically similar. We believe that preparers and users would be best served by aligning the derecognition guidance, eliminating industry-specific guidance, and simplifying the application where possible. Thus, we support the issuance of the proposed guidance and offer our suggestions and other observations in our detailed responses to the Questions for Respondents in the Appendix.

We understand that the Board plans to consider the comments on the proposed Accounting Standards Update, *Business Combinations (Topic 805): Clarifying the Definition of a Business* in conjunction with the comments it receives on this Exposure Draft. We support this approach as the proposed Accounting Standards Update on Business Combinations will likely increase the number of transactions considered to include a nonfinancial asset or an in substance nonfinancial asset. However, we continue to believe that preparers and users would be best served by aligning the recognition and measurement guidance and eliminating the accounting differences between the acquisitions and dispositions of assets and businesses.

If you have any questions regarding our comments, please contact Patrick Durbin at (973) 236-5152 or Larry Dodyk at (973) 236-7213.

Very truly yours,

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP



## Appendix

**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 believe the list of transactions that are excluded from Subtopic 610-20 in paragraph 610-20-15-3 is complete.

**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.*

We do not believe industry-specific accounting treatment is necessary for economically similar transactions. We therefore agree that the transfer of all businesses, including real estate businesses, and nonprofit activities should be excluded from the scope of Subtopic 610-20.

**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 do not have any further comments on the appropriateness or operability of the amendments in the proposed Accounting Standards Update.

**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?*

We believe it is appropriate to include in substance nonfinancial assets within the scope of Subtopic 610-20. While we believe the proposed guidance is operable, we suggest a clarification to the decision tree referenced in 610-20-15-4. If the question “Are the assets in the subsidiary in substance nonfinancial assets? (610-20-15-6)” on page 2 of the decision tree is answered in the negative, the box appropriately sends the reader to paragraph 810-10-40-3A. However, the same box then requires the user to “*apply paragraph 610-20-15-11 to separate parts of the contract (if any) within the scope of Subtopic 610-20 from the derecognition of the subsidiary.*”

We believe this statement is confusing. At a minimum, the reference to paragraph 610-20-15-11 should be a separate box. Otherwise, some preparers may incorrectly assume that they should continue to look to Subtopic 610-20 for guidance on the derecognition of the subsidiary (or parts of the subsidiary) despite the direction to apply Subtopic 810-10 in these situations.



**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?*

Although the separation of each asset in a subsidiary that is not a business into different derecognition models may result in more precise financial reporting, we do not believe that the benefits would justify the additional costs. Further, due to the alignment of various derecognition models contemplated in the proposed Accounting Standard Update, we believe there will be fewer accounting differences between the two alternative approaches. For these reasons, we agree with the proposal to exclude subsidiaries that do not have in substance nonfinancial assets entirely from the scope of Subtopic 610-20.

**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?*

As stated in paragraph 610-20-40-4, “the reporting entity first must determine whether it retains a controlling financial interest in the subsidiary in accordance with the guidance in Topic 810 on consolidation.” If the reporting entity maintains a controlling financial interest, the distinct nonfinancial assets in the subsidiary would not be derecognized. We believe this is the appropriate first step prior to considering the unit of account. However, if the reporting entity no longer retains a controlling financial interest, we believe the appropriate unit of account should be each distinct nonfinancial asset in order to determine the point in time when each is transferred. In that context, we also agree with the Board’s observation that there would be limited circumstances when all of the distinct nonfinancial assets in the subsidiary would not transfer at the same time when the reporting entity no longer retains a controlling financial interest.

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

We agree that an entity should measure a retained interest in a nonfinancial asset at fair value consistent with the measurement model for retained noncontrolling interests in Topic 810. This is also consistent with the Board’s simplification objectives and would produce similar outcomes for economically similar transactions.

**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?*

If there are cases when distinct nonfinancial assets in a subsidiary are transferred at various times, we believe the guidance provided in paragraphs 610-20-40-3 through 40-10 would be operable.

**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?*

We agree with providing an entity the option to apply different transition methods to Subtopic 610-20 and Topic 606. Although the amendments in the Exposure Draft are intended to align the derecognition threshold in Subtopic 610-20 with Topic 606, the transactions that are within the scope of Subtopic 610-20 tend to be more infrequent or ad hoc in nature and not directly related to the broader reporting model contemplated under Topic 606.



**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?*

As noted in our cover letter, we support the Board’s consideration of comments on the proposed Accounting Standards Update, *Business Combinations (Topic 805): Clarifying the Definition of a Business* in conjunction with the comments received for this proposed Accounting Standards Update. As such, we believe they should be finalized and made effective at the same time. The same definition of a business would then be applicable for both Topic 805 and Subtopic 610-20.

**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.*

We 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. However, in consideration of the changes in this Subtopic, specifically when (1) an entity transfers a distinct nonfinancial asset in exchange for consideration in the form of a noncontrolling ownership interest in the counterparty and (2) the consideration is measured at fair value with full gain recognition, we believe the Board should also clarify whether similar transactions in which an equity method investment is exchanged for a noncontrolling ownership interest in the counterparty should result in the same accounting recognition.

Paragraph 845-10-55-2 includes a table that states that an exchange of an equity method investment for another equity method investment should be accounted for under Topic 860, which means it would be measured at fair value. However, the scope exceptions in Topic 860 should be considered to determine if the exchange meets the definition of a “transfer.” Paragraph 860-10-15-4(f) specifically excludes exchanges that involve investments by owners or distributions to owners of a business entity. When excluded, entities often apply paragraph 845-10-25-9, which has been rescinded by this Subtopic, or ASC 323-10-35-7, both of which would result in only partial gain recognition.

We believe partial gain recognition is appropriate when an entity transfers an equity method investment for consideration in the form of a noncontrolling ownership interest in a newly formed holding company (newco), and the entity’s ownership interest is reduced as part of the transaction for cash consideration (for example, from 40% interest to 25%). This would effectively be a dilution transaction.

In contrast, when applying the scope exclusion to Topic 860, we believe full gain recognition is appropriate when an entity transfers an equity method investment for consideration in the form of a noncontrolling ownership interest in a substantive counterparty that will own the equity method investment. We believe this transaction is similar to transactions addressed in Subtopic 610-20 and should be accounted for similarly.



**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?*

We agree that the proposed amendments would reduce the cost and complexity of evaluating the derecognition of nonfinancial assets because they align various pieces of existing guidance and they eliminate industry-specific guidance. However, we believe that the Board should consider the following clarifications:

- **Measurement of licensed intellectual property:** In situations when an entity is not within the scope of Topic 606 (because they do not have a contract with a customer), the licensing of intellectual property could be accounted for under Subtopic 610-20 if it is determined, through the licensing contract, that the entity no longer controls the intellectual property. We believe it would be helpful to clarify in paragraph 610-20-32-2 that when determining the transaction price, the variable consideration exception for the licensing of intellectual property (referenced in paragraph 606-10-32-13), would also apply to transactions within the scope of this Subtopic.
- **Paragraph 610-20-55-21 (call option):** In the basis for conclusions to Topic 606, the Board indicates that a non-substantive call option should be ignored in the evaluation of transfer of control. We believe this guidance is equally applicable to Subtopic 610-20 as transactions within the scope of this Subtopic more commonly include repurchase rights and should be included in the basis for conclusions.
- **Contributions of nonfinancial assets to joint ventures:** We believe the Board should include specific guidance in Subtopic 610-20 that clarifies that the investor's accounting for contributions of nonfinancial assets to joint ventures are within the scope of Subtopic 610-20. While revisions are proposed to other Subtopics in connection with this amendment, we believe this concept should also be highlighted in Subtopic 610-20.
- **Decisions tree in paragraph 610-20-55-5:** The decision tree directs the preparer to Topic 860 for assets that are entirely financial assets. However, in practice today, entities consider both Topic 860 and Topic 810 when determining if the derecognition of a financial asset or assets is appropriate. We do not believe it was the intent of the Board to change current practice. While the reference in the decision tree to Topic 860 is technically correct, we recommend that the Board clarify in the basis for conclusions that it is not intended to change the current practice of considering Topic 810 when applying Topic 860 in regards to the derecognition for assets that are entirely financial assets.