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Susan M. Cosper, Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Via Email to director@fasb.org

Grant Thornton LLP
Grant Thornton Tower
171 N. Clark Street, Suite 200
Chicago, IL 60601-3370

T +1 312 856 0200
F +1 312 565 4719
grantthornton.com

Re: File reference number 2016-250

Dear Ms. Cosper:

Grant Thornton LLP appreciates the opportunity to comment on Proposed Accounting Standards Update, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*. Overall, we support the Board's efforts to define an "in substance nonfinancial asset" to clarify the scope of the guidance in Subtopic 610-20 and provide guidance on the accounting for partial sales of nonfinancial assets in phase 2 of its 3-phase project to clarify the guidance on acquisition and disposition of assets and businesses.

Responses to Selected Invitation to Comment Questions

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 that the list of transactions excluded from the scope of Subtopic 610-20 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.

Yes, we agree that transfers of all businesses, including real estate businesses, and nonprofit activities should be excluded from the scope of Subtopic 610-20 as we believe the derecognition guidance in ASC 810-10-40 presently is adequately-understood and operable.

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

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within the scope of Subtopic 610-20, and would the guidance be operable? If not, why and what other alternatives would you suggest?

Yes, we believe that it is appropriate to include in substance nonfinancial assets to be within the scope of Subtopic 610-20. We however recommend that the definition of in substance nonfinancial asset be clarified to explain that the fair value of nonfinancial assets included in a contract should form substantially all of transaction price of the contract. The definition can be modified as follows:

a. A contract in which substantially all the <u>transaction price of the contract</u> ~~fair value of the assets (recognized and unrecognized) promised to the counter party~~ is concentrated in nonfinancial assets<u> (recognized and unrecognized) that are included in the contract</u>.

We recommend such clarification to resolve circumstances where the fair value of the asset within a contract is based on nonfinancial assets, for example,

> When a contract to sell assets includes loans (along with other nonfinancial assets that are immaterial to the contract's transaction price) which are provided to borrowers based on the fair value of nonfinancial collateral (for example buildings), the transaction price of the contract is based on the fair value of the loans which in turn is based on the fair value of the underlying building that is used as collateral. Questions may arise as to whether such loans qualify as in substance nonfinancial assets, since the first condition in the definition of in substance nonfinancial asset states that "an asset of the reporting entity that is included in a contract in which substantially all the *fair value of the assets promised* to the counter party *is concentrated in nonfinancial assets*."

We do not believe the Board intends for such an asset to be included in the scope of ASC 610-20 and therefore recommend that the definition of in substance nonfinancial asset be clarified. In addition we recommend that the master glossary definition of "in substance nonfinancial asset" provide a link to the definition of "nonfinancial asset" in the master glossary and the definition of "nonfinancial asset" be included in ASC 610-20-20.

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 support the scope exception in 610-20-15-3(k) for subsidiaries that do not have in substance nonfinancial assets. We believe that the alternative approach would be complex if it were to require derecognition by type of individual assets of a subsidiary that is not a business or nonprofit activity and does not include an in substance nonfinancial asset.

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?

We agree but believe that the guidance should clearly identify that the unit of account is the distinct nonfinancial asset or in substance nonfinancial asset within the subsidiary and not the subsidiary itself. We believe in many places the guidance uses words that are confusing. For example this question refers to "ownership interest in a subsidiary that is an in substance nonfinancial asset," however the definition of in substance nonfinancial asset does not apply to a subsidiary but rather to assets within a subsidiary.

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. We believe this would align the guidance for accounting for retained interest in derecognized financial assets, nonfinancial assets, and businesses. In addition, we believe that this would reduce the basis difference that results in situations when the retained interest is accounted for under the equity method of accounting, for example, when an entity transfers nonfinancial assets to a joint venture.

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 the guidance outlined in paragraphs 610-20-40-3 through 40-10 provide an operable framework for entities to determine when/if control of a distinct nonfinancial asset transfers.

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. Because the nature of the transactions within the scope of Subtopic 610-20 and Topic 606 differ (contracts with non-customers and contracts with customers, respectively), an entity that chooses to apply the new revenue guidance using a full retrospective method should not be forced to also apply the derecognition guidance in 610-20 on the same basis.

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?**

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As the proposed amendments herein are one of the three phases in its overall project to clarify the guidance on acquisition and disposition of assets and businesses, we support an entity using the revised definition of a business when implementing the guidance in ASC 610-20 as amended by this proposal. The Board's work on revising the definition of a business will provide the most relevant accounting, reflecting the feedback from stakeholders.

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 elimination of the exception in ASC 860 for transfers of ownership interests that are in substance nonfinancial assets. We agree that this elimination will simplify and clarify the derecognition models for financial assets and nonfinancial assets.

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We would be pleased to discuss our comments with you. If you have any questions about our response, please contact Rahul Gupta, Partner, 312 602 8084, rahul.gupta@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP