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August 12, 2016

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

Re: June 6, 2016 Exposure Draft of a Proposed Accounting Standards Update (ASU), *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* [File Reference No. 2016-250]

Dear Ms. Cosper:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 412,000 members in 144 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the ED and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC supports the proposed ASU since it will provide helpful guidance in accounting for real estate and other transactions that do not qualify as the disposition of a business. Although the proposal is complex, it ultimately provided a clear roadmap for determining the applicable literature for derecognition transactions, including partial sales. TIC welcomes the new definition of an in substance nonfinancial asset, especially the guidance on what it is and what it is not.

TIC believes that the revised definition of a business should be utilized for all transactions that fall within the scope of Subtopic 610-20 and has offered a recommendation for the

Board's consideration to align the transition provisions of this standard with those of the upcoming ASU, *Business Combinations (Topic 805): Clarifying the Definition of a Business* (the Definition of a Business ASU).

The comments below also include two recommendations to improve the clarity of the proposal.

SPECIFIC COMMENTS

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. The list appears 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. TIC believes the transfer of a business should be excluded from Subtopic 610-20. However, our response is based on completion of Phase I of the Board's project to narrow the scope of a business (the Proposed Definition of a Business ASU).

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?*

Overall, TIC was supportive of the proposed amendments in the Definition of a Business ED, as discussed in the committee's letter dated January 27, 2016. TIC is not proposing further changes to the definition in that proposal. Please see TIC's response to Question 10 below for comments on the proposed transition provisions of that proposal,

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?*

Yes. TIC believes there is uncertainty around what types of transactions currently fall within the scope of Subtopic 610-20, which includes, but is not limited to, determining in substance nonfinancial assets. Furthermore, once the Board issues the Definition of a Business ASU, many real estate transactions will fall within the scope of Subtopic 610-20.

TIC also believes the proposed model is operational and supports a qualitative assessment as noted in paragraph 610-20-15-10 for determining whether substantially all of the fair value of the assets to be derecognized is concentrated in nonfinancial assets.

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?*

TIC agrees with the Board's conclusion that the alternative approach discussed above would not be operable for partial sales. TIC agrees with the conclusion in paragraph BC34 that it would be difficult to apply both the guidance in Subtopic 610-20 and the guidance in Topic 860 (Transfers and Servicing) to portions of a transaction in a partial sale transaction in which the seller retains an ownership interest in a former subsidiary. In addition, the model in Topic 860 (e.g., paragraph 860-10-55-13) already excludes the "transfer of an ownership interest in a consolidated subsidiary by its parent if that consolidated subsidiary holds nonfinancial assets."

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. If the subsidiary is not considered a business (and not within the scope of Subtopic 610-20), the unit of account should be each distinct nonfinancial asset. TIC believes that many times control of nonfinancial and in substance nonfinancial assets will be transferred at the same time, but there could be arrangements where control is transferred at different points of time. As a result, TIC believes the ASU should define the unit of account as a distinct asset to prevent diversity in practice and prematurely recognizing gains/losses associated with the transfer of nonfinancial and in substance nonfinancial assets.

TIC believes determining the unit of account is a fundamental principle when recognizing gains and losses associated with transferring multiple nonfinancial assets and that the identification of the unit of account should be consistent with Topic 606. The principles of recognizing gains and losses from the transfer of nonfinancial assets in Subtopic 610-20 should align with the principles of revenue recognition in Topic 606 as much as practicable.

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

Yes. TIC believes noncash consideration received resulting from the transfer of nonfinancial or in substance nonfinancial assets should be measured at fair value. When an entity transfers complete control of the nonfinancial asset and it receives a noncontrolling ownership interest in the entity that previously held the nonfinancial asset, the transferring entity has effectively exchanged a nonfinancial asset for a financial asset (i.e., the noncontrolling investment in the entity that held the nonfinancial asset). In other words, when the buyer receives control of the nonfinancial asset surrendered by the seller, the buyer has elected, in the form of consideration, to surrender a noncontrolling ownership interest. Therefore, TIC believes this properly reflects the economics of the exchange transaction and underlying consideration received from the buyer. Additionally, this is consistent with measuring noncash consideration in Topic 606, which requires noncash consideration to be measured at fair value (606-10-32-21).

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?*

Yes. TIC believes the transfer of control should be consistent with the requirements of Topic 606. TIC does not see there being a conceptual basis for a difference in transferring control (and recognition of revenue or a gain/loss in a transaction) between Subtopic 610-20 and Topic 606, whether the transfer of a good is to a customer or a nonfinancial/in substance nonfinancial asset to a noncustomer.

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?*

See response to Question 10.

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?*

TIC believes the revised definition of a business should be utilized for all transactions that fall within the scope of Subtopic 610-20. However, TIC recognizes that this recommendation may be difficult to accomplish given the Board's tentative conclusion to utilize prospective adoption for the upcoming Definition of a Business ASU. Retrospective application of Subtopic 610-20 and prospective application of the Definition of a Business ASU could result in applying two different definitions of a business to an entity's prior derecognition transactions.

To avoid this outcome, TIC would support having different transition approaches within the Definition of a Business ASU. TIC believes separate transition approaches could

accommodate the conflicting considerations relating to acquisition v. derecognition transactions and would avoid undue complexity in implementing the definition. Therefore, TIC recommends a prospective transition approach for acquisition transactions and a retrospective approach for derecognition transactions for the Definition of a Business ASU.

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. TIC agrees with the conclusions in paragraph BC38 that the proposed amendments would reduce complexity and promote consistency in the accounting for the transfers of all equity method investments.

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?*

Yes. With the elimination of industry-specific guidance in real estate in Subtopic 360-20 and the uncertainty about the types of transactions that fall within the scope of Subtopic 610-20, TIC believes the proposed amendments will reduce the complexity and confusion that currently exist in the application of Subtopic 610-20. In addition, with the clarifications on the definition of a business, there will be an increase in transactions which will fall within the scope of Subtopic 610-20, especially in the real estate industry, since fewer real estate transactions will be considered businesses. TIC also believes that the proposed amendments align with the principles of Topic 606, when appropriate.

OTHER COMMENTS

TIC believes additional revisions are necessary to improve the clarity of the final ASU. The decision tree in paragraph 610-20-55-5 was especially helpful in understanding the process for evaluating whether a contract or portions of a contract fall within the scope of this Subtopic. However, TIC recommends moving the decision tree to the scope section of the final ASU so that it can immediately follow the scope paragraphs. TIC believes the scope requirements will be more understandable if the decision tree follows the related guidance.

TIC believes paragraph 610-20-45-3 would benefit from the addition of journal entries to illustrate the debits and credits involved when a counterparty promises to assume or relieve a liability in exchange for a nonfinancial asset that falls within the scope of Subtopic 610-20. Since the paragraph covers two different scenarios—one in which the liability meets the criteria for derecognition and another in which it does not—further guidance is needed to explain when the liability v. a contract asset is debited. TIC believes the precedent established in Topic 606 of providing journal entries to illustrate complex principles is an effective technique that should also be used in this proposed ASU.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink that reads "Michael A. Westervelt". The signature is written in a cursive, slightly slanted style.

Michael A. Westervelt, Chair
PCPS Technical Issues Committee
cc: PCPS Executive and Technical Issues Committees