

August 1, 2016

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

By e-mail: [director@fasb.org](mailto:director@fasb.org)

**Re: 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***

**(File Reference No. 2016-250)**

Dear Ms. Cospers:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 26,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above-captioned exposure draft.

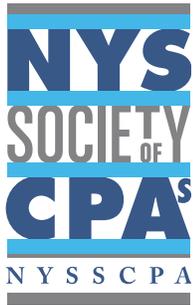
The NYSSCPA's Financial Accounting Standards Committee deliberated the proposed accounting standards update and prepared the attached comments. If you would like additional discussion with us, please contact Craig T. Goodman, Chair of the Financial Accounting Standards Committee, at (212) 324-7048, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

A handwritten signature in blue ink that reads "F. Michael Zovistoski". The signature is written over a faint, semi-transparent watermark of the NYSSCPA logo.

F. Michael Zovistoski  
President

Attachment



**NEW YORK STATE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS 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***

**(File Reference No. 2016-250)**

**August 1, 2016**

**Principal Drafters**

**Craig T. Goodman  
Margaret A. Wood**

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## **NYSSCPA Staff**

Ernest J. Markezin

# New York State Society of Certified Public Accountants

## Comments 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***

**(File Reference No. 2016-250)**

#### **General Comments**

We welcome the opportunity to respond to the Financial Accounting Standards Board's (FASB or the Board) invitation to comment on the 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* (Proposed Update).

We believe there will still be some confusion as to whether Subtopic 610-20 applies to transactions between affiliates, under common control, either direct or indirect. Real estate industry structures are complex and involve transactions between entities indirectly controlled by individuals, entities or groups that may or may not require financial statements. See our responses to Questions 1, 4, 7, 8 and 12 for additional comments and suggestions.

#### **Specific Comments**

We have the following responses to the questions posed in the Proposed Update.

**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.**

**Response:** Clarification is required as to the inclusion or exclusion of the gain or loss recognized upon the derecognition of a nonfinancial asset (including nonfinancial assets with zero carrying value) or an in-substance nonfinancial asset between reporting affiliated entities under common control, direct or indirect by an individual or group.

As noted under the general comments for Section 845 Nonmonetary Transactions, paragraph 845-10-15-4b clearly states transactions between affiliates would be excluded (“a transfer of nonmonetary assets solely between entities or persons under common control”). We did observe that paragraphs 610-20-40-6 and 40-7 and paragraph 610-20-55-17 are applicable for unrelated parties. However, paragraph 610-20-32-5, Transfer of a Distinct Nonfinancial Asset for a Noncontrolling Ownership Interest in the Counterparty, makes no mention of excluding transactions between affiliates. The Proposed Update should be clarified.

We suggest that guidance, examples or links be provided for transactions between a reporting entity and an affiliate (non parent), related through indirect control by an individual or group. For example, Example 3 Case A described in paragraph 610-20-55-17 states that the contract is with an unrelated party; we suggest an example be provided between a reporting entity and an affiliated entity, related through indirect ownership by an individual or group. The other examples and the decision tree in paragraph 610-20-55 do not mention related parties.

Also, consideration should be given to adding guidance or an example of a transfer by a reporting entity A of Subsidiary 1 to an affiliated entity B in exchange for 40% of entity B. Entity A and B are indirectly under common control by an individual or group. Subsidiary 1 does not qualify as a business and substantially all of the assets are in substance nonfinancial assets.

**Question 2: Do you agree that transfers of all businesses (including real estate businesses) or not for profit 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.**

**Response:** We agree with the exclusion from the scope of Subtopic 610-20 of transfers of all businesses (including real estate businesses) and not for profit activities.

**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 Standards Update, *Business Combinations (Topic 805) Clarifying the Definition of a Business*?**

**Response:** We have no additional comments but refer the FASB staff to our comments included in our letter dated January 22, 2016 on the Proposed Standards Update, *Business Combinations (Topic 805) Clarifying the Definition of a Business* (see attached).

**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 610-20, and would the guidance be operable? If not, why and what other alternatives would you suggest?**

**Response:** We agree it is appropriate to include in substance nonfinancial assets transactions within the scope of 610-20. Except as noted in our response to Question 1, we agree the guidance in paragraphs 610-20-15-4 through 15-10 is operable and the decision tree in paragraph 610-20-55-5 assists in the understanding of paragraphs 610-20-15-4 through 15-10.

**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 of paragraph 610-20-15-4 and separate each asset in the 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 some examples of how this would be applied. If operable, do you support such an approach?**

**Response:** We agree with the exclusion of subsidiaries that do not have in substance nonfinancial assets entirely from the scope of 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?**

**Response:** We agree that the unit of account should be each distinct nonfinancial asset in the subsidiary.

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

**Response:** We agree that an entity should measure a retained interest in a nonfinancial asset at fair value when the transaction is entered into with non-affiliated counterparties. See our response to Question 1 regarding transactions with related parties.

**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?**

**Response:** We believe the guidance would be operable if our response to Question 1 is addressed.

**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?**

**Response:** Yes, we agree with providing an entity with the option to apply different transition methods to Subtopic 610-20 and 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?

**Response:** We believe the revised definition of a business should be used when implementing Subtopic 610-20.

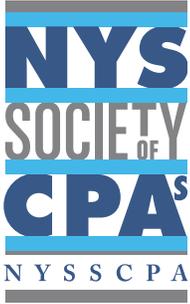
**Question 11: Do you agree with the proposed amendments to eliminate the exception in Topic 860 for transfers of equity method investees that were formerly considered**

**substantially 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.**

**Response:** Yes, we agree.

**Question 12: Overall, do you agree that the proposed amendments would reduce the cost and complexity of evaluating derecognition of nonfinancial assets? Why or why not?**

**Response:** It appears that the proposed amendments would reduce the cost and complexity of evaluating derecognition of nonfinancial assets, except as noted our comments in Question 1.



ATTACHMENT

**Attachment for Question 3**

January 22, 2016

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

By e-mail: [director@fasb.org](mailto:director@fasb.org)

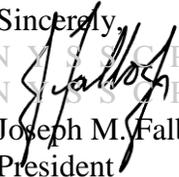
**Re: Proposed Accounting Standards Update—*Business Combinations (Topic 805):  
Clarifying the Definition of a Business***

**(File Reference No. 2015-330)**

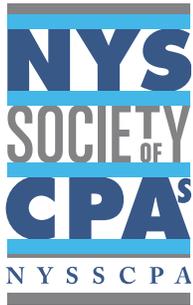
Dear Ms. Cospers:

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Sincerely,  
  
Joseph M. Falbo, Jr.  
President

Attachment



**NEW YORK STATE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS ON  
PROPOSED ACCOUNTING STANDARDS UPDATE—*BUSINESS COMBINATIONS*  
(*TOPIC 805*): *CLARIFYING THE DEFINITION OF A BUSINESS***

**(File Reference No. 2015-330)**

**January 22, 2016**

**Principal Drafters**

**Robert A. Dyson  
Craig T. Goodman  
Margaret A. Wood**

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## **NYSSCPA Staff**

Ernest J. Markezin  
William R. Lalli

# New York State Society of Certified Public Accountants

## Comments on

### **Proposed Accounting Standards Update—*Business Combinations (Topic 805): Clarifying the Definition of a Business***

**(File Reference No. 2015-330)**

#### **General Comments**

We welcome the opportunity to respond to the Financial Accounting Standards Board's (FASB or the Board) invitation to comment on the Proposed Accounting Standards Update – *Business Combinations (Topic 805): Clarifying the Definition of a Business* (Proposed Update).

In general we agree with the Proposed Update and have limited our comments to those questions with which we had significant deliberations and additional thoughts for the FASB to consider. The areas of discussion included the effects on qualifying for business combination accounting of the following criteria: 1) the elimination of "market appreciation" and "lower costs" from output; 2) potential effect of the acquisition of a formerly outsourced service, function or process; and 3) acquisition of "temporary workforce" with knowledge and skills, such as researchers who are employed or contracted for a period that will last only until the completion of a project or phase.

#### **Responses to Selected Questions for Respondents**

**Question 2: Paragraphs 805-10-55-5A through 55-5D provide guidance on determining whether a set contains an input and a substantive process that together contribute to the ability to create outputs. Are the criteria appropriate, and would they be operable in practice? If not, why?**

**Response:** We agree with the criteria, except that we believe that paragraph 805-10-55-5D needs to be clarified. The workforce threshold seems to exclude start up entities that are developing single or several related products such as medical and bio-technology companies developing products while seeking government regulatory approval. They often employ the lead researcher and either direct or contract research employees. Questions could arise over whether the lead researcher or research employees would transfer with the entity to the acquirer and if so, would such transfer be permanent or transitory. In these cases, many researchers leave the employ of an entity when their phase of the project is complete. The FASB staff should provide some clarification on this issue or add a case using a biotech or research and development acquisition acquiring a temporary workforce that will stay until the completion of a project or completion of the phase it is working on, and how this workforce fits the criteria.

**Question 3: Would the proposed guidance be operable without the criteria in paragraphs 805-10-55-5A through 55-5D? Why or why not?**

**Response:** The criteria in paragraphs 805-10-55-5A through 55-5D are necessary to make the proposed guidance operable. However, we believe that the criteria should be enhanced or cases provided to clarify them. See our responses to Questions 2 and 5.

**Question 4: Paragraph 805-10-55-9 provides that the presence of more than an insignificant amount of goodwill may be an indicator that an acquired process is substantive. Do you think this indicator is appropriate and operable? Why or why not?**

**Response:** The presence of more than an insignificant amount of goodwill is more than an indicator that an acquired process is substantive. ASC 350-20-35-1 associates goodwill with a reporting unit for public companies. In addition, ASC 350-20-35-60 requires such association for non-public companies either at the reporting unit level or at the entity level, provided that the entity level meets the definition of a reporting unit. ASC 350-20-35-34 describes a reporting unit as “a business or a nonprofit activity for which discrete financial information is available and segment management, as that term is defined in paragraph 280-10-50-7, regularly reviews the operating results of that component.” Thus, a reporting unit would appear to meet the definition of a business and the existence of goodwill would provide a rebuttable presumption that the activity in question is a business.

**Question 5: Do you agree with the changes proposed to the definition of outputs? That is, do you agree that for purposes of evaluating whether a transferred set is a business, outputs should be focused on goods and services provided to customers? If not, why?**

**Response:** We believe that the definition of outputs should be expanded to include market appreciation of assets and lower costs, as these items are generally deemed as outputs for entities contemplating entering into a business combination.

We had extensive discussion on the effect of eliminating lower of cost as an output and whether or not with the replacement of “goods and services to customers” would affect the accounting treatment for the acquisition of a former service provider such as a call center business, an internal service department which provides substantially all of its output to the different components of its reporting entity, the manufacturer of a component part in a product currently sold by the acquirer, or one of manufacturers of private label merchandise by a retailer would qualify for business combination accounting.

Paragraph 805-10-55-8 indicates that “Determining whether a particular set of assets and activities is a business should be based on whether the integrated set is capable of being conducted and managed as a business by a participant. Thus, in evaluating whether a particular set is a business, it is not relevant whether a seller operated the set as a business or whether the acquirer intends to operate the set as a business.” Due to the amount of discussion and questions that arose we believe further clarification was needed. The clarification can be made to paragraphs 805-10-55-4c, 5-5D or the addition of a case example in which the facility, equipment and workforce are acquired but the only continuing customer is the acquirer. In the

manufacturing examples the product is still being sold either as a component in a product sold to customers or to customers by the retailer.

**Question 9: How much time would be necessary to adopt the amendments in this proposed Update? Should early adoption be permitted? Would the amount of time needed to apply the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities?**

**Response:** The amount of time to adopt this amendment would not be excessive. However, the effective date should be the end of the reporting entity's annual reporting date.

**Question 11: Do the examples in paragraphs 805-10-55-51 through 55-88 clearly illustrate the application of the proposed guidance? Why or why not?**

**Response:** The examples in paragraphs 805-10-55-51 through 55-88 require some clarification. See our responses to question 2 and 5 above. In addition we believe the following cases need additional clarification:

- Case B, it is unclear if the acquirer is purchasing a legal entity from Biotech or just assets.
- Case H does not consider whether REIT (the buyer) is responsible for managing the property. The management of the property would include collecting rents, paying for security, insurance and other costs, as well as cleaning the common areas. Case H notes that the seller's personnel perform these services and that REIT intends to assume the function. This implies that REIT is responsible for those functions, but is using the seller's personnel in a contractual arrangement in place of REIT's employees, as permitted by proposed ASC 805-10-55-5D. The contractual arrangement would result in the same conclusions arrived at in Case I.

Consideration should be given to adding a case or clarifying an example in which the legal form is not acquired and the seller did not operate the assets, and workforce and processes are acquired as a business but qualifies for business combination treatment.