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Ms. Suzanne Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5166

Letter of Comment No: 6

File Reference: 1200-300

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Dear Ms. Bielstein:

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the Proposed Statement of Financial Accounting Standards, *Exchanges of Productive Assets – an amendment of APB Opinion No. 29*.

We support the issuance of guidance to clarify and converge the treatment of exchanges of productive assets based on the overall concept of fair value. We also support the goal of achieving convergence with International Financial Reporting Standards.

We believe the proposed statement meets two important goals for the future of global financial reporting. First, the use of a commercial substance model based on cash flows and entity-specific values and the elimination of the Opinion 29 paragraph 21(b) similar productive assets exception are consistent with the goal of moving toward principles-based accounting. Principles-based accounting is also promoted by the definitional guidance in paragraph 2 of the proposal, which includes the concepts of transfer of risks and rewards and no continuing involvement. Second, the proposed statement advances the movement towards fair value accounting. We agree it is appropriate to apply fair value accounting in situations where an entity's economics have changed as a result of an exchange. The accounting result should not differ whether a transaction is settled with monetary or non-monetary assets.

Consistent with the position above and as previously stated in other contexts, although we support the concept of fair value for non-monetary exchanges, we continue to believe that fair value accounting for property, plant, and equipment and intangible assets should be addressed comprehensively.



We appreciate the opportunity to express our views on the proposal. Our responses to the specific questions contained in the exposure draft are included in the attached appendix. If you have any questions regarding our comments, please contact Marvin A. Thomas (973-236-4989) or Carina Markel (973-236-5412).

Sincerely,

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

PricewaterhouseCoopers LLP

Issue 1: Commercial Substance. Is the commercial substance guidance operational? By operational, the Board means:

- a. The proposed standard is comprehensible by a reader who has a reasonable level of business or accounting knowledge and sophistication.*
- b. The information needed to implement the requirement is currently available or can be created.*
- c. The results of applying the requirement are those intended by the Board.*

If not, what changes would be necessary to make the commercial substance guidance operational? Would the proposed changes to Opinion 29 discourage inappropriate gain recognition or deferral? If not, what changes would be necessary to do so? Paragraphs A10 and A11 discuss the basis for the Board's decision on this matter.

We believe the criteria and two-step approach are operational and comprehensible by a reader with a reasonable level of business or accounting knowledge. Most entities entering into such asset exchanges are doing so precisely because they expect their cash flows and/or entity-specific values to change. Gain recognition is appropriate in those circumstances.

The commercial substance test has already been adopted under the revisions to IAS 16, *Property, Plant and Equipment* ("IAS 16"), and global convergence would not be served by proposing a different model. As with any gain recognition, comprehensive disclosure of the measurement methods used and circumstances surrounding the non-monetary asset exchange will be critical to the transparency and understandability of the financial statements. Such disclosures should be required in the financial statements.

In reference to the last paragraph in 21 (commercial substance predicated on tax cash flows), we believe that an exchange can have commercial substance even if the change in cash flows or entity-specific value arises solely from tax effects. Although we believe the paragraph was intended to be cautionary, it may have the effect of improperly excluding certain tax motivated transactions. The concept of tax motivated transactions is not addressed in IAS 16, therefore the addition of this concept will introduce divergence between the FASB and the IASB. For these reasons, we recommend removal of the paragraph.

*Issue 2: Scope Exceptions. This proposed Statement would exclude from its scope transactions that embody a transfer of assets to an entity in exchange for an interest in that entity, as well as transactions involving the exchange of a part of an operating interest owned by one party for a part of an operating interest owned by another party that are subject to paragraphs 44(b) and 47(e) of FASB Statement No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*. However, transactions that are subject to paragraph 44(a) of Statement 19 would be subject to the provisions of*

this proposed Statement. Are the scope exceptions appropriate? If not, why not? Paragraphs A7 and A8 discuss the basis for the Board's decision on this matter.

We understand the Board's concern about presupposing answers to issues being addressed in other projects. However, excluding from the scope of Opinion 29 transactions that involve a transfer of assets to an entity in exchange for an interest in that entity would leave the accounting for such transactions without applicable authoritative guidance. Because these types of transactions are fairly common, we believe it is preferable to continue to account for them under Opinion 29 until they are addressed by another standard. Accordingly, we recommend removing the proposed scope exception in par. 3 of the proposal, which would become par. 4(e) of Opinion 29.

Our experience has shown that in practice there is rarely a difference between the transactions described in FAS 19 pars. 44(a) and 47(e) due to the ownership structure of most arrangements. In fact, pars. 47(a) – (m) consist of several examples of par. 44(a) transactions. We believe that both types of transactions, a transfer of assets used in oil and gas producing activities in exchange for other assets also used in oil and gas activities (par. 44(a)) and the exchange of a part of an operating interest owned for a part of an operating interest owned by another party (par. 47(e)), should be accounted for under the provisions of the proposed statement, particularly given that the par. 47(e) transactions have previously been described as exchanges of similar productive assets.

Issue 3: Real Estate Transactions. FASB Statement No. 66, Accounting for Sales of Real Estate, states that exchanges of real estate for other real estate are not within its scope and should be accounted for under the provisions of Opinion 29. The Board considered whether to eliminate that exception to the scope of Statement 66 but tentatively decided not to do so because Statement 66 was designed to deal with transactions involving monetary consideration. Do you agree that non-monetary exchanges of real estate should continue to be accounted for under Opinion 29 as amended by this Statement? If not, how could Statement 66 be amended to address issues related to non-monetary transactions? Paragraph A9 discusses the basis for the Board's decision on this matter.

We agree that non-monetary exchanges of real estate should continue to be accounted for under Opinion 29. However, the addition of par. 2 in the proposed statement may establish higher gain recognition thresholds for non-monetary real estate exchanges than for real estate transactions involving monetary consideration. Par. 2 states:

A transfer of a non-monetary asset is not considered an exchange unless the transferor has no continuing involvement in the transferred asset such that all the risks and rewards of ownership of the asset are transferred.

FAS 66 provides the guidance for monetary sales of real estate and has established guidance for profit recognition under various fact patterns when there is continuing involvement by the seller without the complete transfer of all risks and rewards or where

the continuing involvement is insignificant. FAS 66, pars. 25 – 43 describe common forms of continuing involvement in real estate transactions and specify the appropriate accounting, which generally includes some level of gain/loss recognition at the time of sale. The definitional guidance in par. 2 of the proposed statement could improperly lead to the conclusion that gain recognition is not appropriate in certain non-monetary real estate exchanges with continuing involvement. Par. 2 would also create differing treatment for non-monetary and monetary equipment sales in certain cases. For example, par. 21 of FAS 13, *Accounting for Leases*, does not prohibit the existence of a call option on equipment sold subject to an operating lease. The proposed amendment would result in more restrictive rules for exchanges of equipment than for monetary sales of equipment in this case. We believe that the accounting for sale transactions should not be determined by the nature of the consideration (i.e., monetary or non-monetary).

We recommend that the Board change the par. 2 language to require no “significant” continuing involvement in the transferred asset such that all the “significant” risks and rewards of ownership of the asset are transferred. Including “significant” is consistent with the concept used in par. 42 of FAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, when reporting discontinued operations, and as used in par. 39 of IAS 31, *Financial Reporting of Interests in Joint Ventures*, and Standing Interpretations Committee Interpretation SIC-13, *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. If that is not done, par. 2 should at least be modified so that practice will continue to use the existing profit recognition guidance in FAS 13 for equipment transactions and FAS 66 for specific types of non-monetary real estate transactions where there is continuing involvement because of an incomplete transfer of risks and rewards.

Finally, we note that the proposal does not address the accounting in instances where the transfer does not qualify as an exchange and whether the property exchanged should be derecognized and the property received recognized. We believe the accounting in those instances should follow the asset derecognition models under existing GAAP. Under those models, certain transactions that do not qualify as sales may result in financing transactions, such as under FAS 13, and may not, such as under FAS 66. The Board may wish to consider adding guidance to that effect in the final statement.

Issue 4 – Amendment of FAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. This proposed Statement would eliminate the scope exception for exchanges of equity method investments for similar productive assets in Statement 140. Thus, all transfers of equity method investments would have to meet the conditions in Statement 140 before the transferor could derecognize its interests. Exchanges of equity method investments for similar productive assets would no longer be accounted for under Opinion 29. Do you agree that exchanges of equity method investments for similar productive assets should be accounted for within the scope of Statement 140?

We agree with the proposal to eliminate the scope exception for exchanges of equity method investments for similar productive assets in Statement 140. However, there appears to be a potential contradiction in the applicability of the proposed statement. Opinion 29 par. 3(b) includes investments in common stocks as an example of a non-monetary asset. Proposed subparagraph 4(h) would exclude from the scope of Opinion 29 transactions involving the transfer of a financial asset within the scope of FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* ("FAS 140"). FAS 140 includes in its definition of a financial asset "evidence of an ownership interest in an entity." Thus, an exchange of common stock would appear to be simultaneously included, under 3(b), and excluded, under 4(h), from the scope of Opinion 29. It would then be unclear whether, for example, a predecessor's cost basis can be carried over as part of in-kind transfers of securities. The Board should consider adopting a position that all debt and equity securities are monetary in nature and thus exclude them from Opinion 29.