

Letter of Comment No: 30 File Reference: 1200-300 Date Received: 4/16/04

April 21, 2004

Financial Accounting Standards Board via email - director@fasb.org

Re: File Reference 1200-300

Proposed Statement of Financial Accounting Standards, Exchanges of

Productive Assets

## Dear Sir or Madam:

The Accounting Principles and Auditing Standards Committee of the California Society of Certified Public Accountants (the "Committee") has discussed the above referenced exposure draft (ED) and is pleased to provide our comments. The Committee is the senior technical committee of our state society. The Committee is composed of 42 members, of whom 2% are from national CPA firms, 75% are from local or regional firms, 19% are sole practitioners in public practice, 2% are in industry, and 2% are in academia.

Our Committee is in general agreement with the substance of the proposed Statement to eliminate the exception to the general principle that exchanges of nonmonetary assets should be recorded at fair value. Furthermore, we accept the approach to determine whether recognition is given the exchange based on the notion of evaluating the commercial substance of the transaction. However, we do have the following suggestions and concerns with respects to the concept of commercial substance.

- With regards to the two steps considered necessary to determine whether a
  nonmonetary exchange has commercial substance, we recommend eliminating
  the second step. It would seem inconceivable that the entity-specific value could
  change without changes in the cash flows required by the first test.
- We believe the difference in expected future cash flows should be significant. Although this point is made in paragraph 11 of Appendix A, we urge that such guidance, including the threshold test for assessing significance, be included in the body of the new standard.

- The discussion of tax-driven transactions is completely unclear. The language in Appendix A is far superior in describing the substance of what is intended. We recommend a revision for purposes of clarity.
- Most members of the Committee believed there may be commercial substance solely as the result of tax benefits realized.

Overall, we believe the discussion of the concept of "commercial substance" is too vague as presented in the draft. Although we do not have specific suggestions for improvement, we question whether the objective of providing a more robust test of the commercial substance of a transaction has been achieved.

The Committee appreciates this opportunity to comment and will be pleased to discuss our comments with the Accounting and Review Services Committee or its staff at your convenience.

Very truly yours,

David P. Tuttle, Chair Accounting Principles and Auditing Standards Committee California Society of Certified Public Accountants