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Director of Major Projects & Technical Activities Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

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## Dear Director:

We, as students in an accounting theory class, have collectively reviewed the exposure draft "Exchanges of Productive Assets, an Amendment to APB Opinion 29." While we support the FASB's efforts to achieve comparability in financial reporting around the world through convergence with the IASB, we have some concerns about this exposure draft.

We believe that the concept of commercial substance is comprehensible, and we believe that the cost of determining whether an exchange has commercial substance is supportable. Information to configure cash flows or entity-specific values should be readily accessible to companies considering like-kind exchanges, and, therefore, they should not incur unreasonable costs in determining commercial substance. However, we have an issue with the implementation of commercial substance and the possible results that could arise. On the one hand, to avoid having to deal with the new concept and to maintain current practice, firms may minimize the importance of cash flow differences and, hence, deny that commercial substance exists in a particular transaction; they are then free to follow the existing guidance. On the other hand, firms eager to recognize gains may affirm that commercial substance exists when it is minimal. We understand that the FASB is moving from a rules-based to a principlesbased framework, but we suggest that good judgment comes from experience. In this case, with such a new practice, it might be beneficial for the FASB to address this issue more directly, perhaps by offering quantified figures for these items, so as to not leave as much discretion to the implementer. Specific implementation guidance for judging whether commercial substance exists, especially in marginal cases, would be helpful to preparers in implementing the new standard and to users in understanding the results.

Our second concern is whether the reasons for allowing the exchange of similar assets under APB Opinion 29 might still be valid. Opinion 29 states that the exchange of like-kind productive assets "is not essentially the culmination of the earnings process," so exchanges of similar assets are exempt from being reported at fair value. The Internal Revenue Code (Section 1031(a)) does not allow a gain or loss on like-kind exchanges, because the exchange allows for the continuation of business. We believe that the reasoning behind allowing the APB Opinion 29 exception and behind the IRC Section 1031 is practical. We question whether a like-for-like exchange should be reported as a sale and the assets reported at fair value. Unfortunately, under this exposure draft, like-kind exchanges may be deemed to have commercial substance resulting in gain or loss recognition which is not a true reflection of the economic value or when it is not the culmination of the earnings process.

We thank you for your time and consideration of our comments.