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

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PricewaterhouseCoopers LLP appreciates the opportunity to comment on the proposed Accounting Standards Update: Consolidation (Topic 810), *Accounting and Reporting for Decreases in Ownership of a Subsidiary - a Scope Clarification* (the "proposed ASU"). We support the Board's objective for this project and agree with the scope clarifications described in the proposed ASU.

We believe the proposed ASU will eliminate certain conflicts between Topic 810 and other U.S. generally accepted accounting principles. Except as discussed below, we agree with each of the proposals set forth to address Questions 1 - 5 for respondents on page 4 of the proposed ASU.

While we support the general amendments made by the proposed ASU, we recommend that certain aspects of the proposal be clarified or eliminated. Our specific recommendations are as follows:

- Clarify the scope of the proposed ASU with respect to transactions involving real estate entities,
- Clarify the scope of the proposed ASU with respect to certain transactions with owners that result in a retained equity investment,
- Conform the language in the amended Subtopics with respect to nonprofit activities, after considering the changes made by FASB Statement No. 164, to be consistent with the language added by the proposed ASU, and
- Eliminate the requirement to disclose the nature of a company's continuing involvement upon deconsolidation of a business.

## **Real Estate Transactions**

The proposed ASU uses the phrase "...transaction is in substance [a] the sale of real estate..." to describe the scope exemption for sales of entities that are in-substance real estate. This phrase appears in the proposed language in Subtopics 810-10, 845-10, and 323-10. We believe that the Board intended the term "in substance" to describe the nature of the entity as in substance real estate instead of the nature of the transaction as in substance a sale. However, the current wording could create uncertainty about whether non-sale deconsolidation events involving real estate entities should be viewed as an "in substance" sale of real estate that falls outside the scope of Subtopic 810-10. Examples of such non-sale deconsolidation events are a change in the determination of the primary beneficiary of a variable-interest entity under an analysis required by FASB Statement No. 167, or a

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parent's dilution upon the sale of additional securities by a subsidiary. Since these types of transactions would not be within the scope of ASC 360 and ASC 976, we believe that the Board intended that these non-sale deconsolidation events be within the scope of ASC 810.

To clarify that such transactions are within the scope of Subtopic 810-10, we suggest that the phrase be reworded as "...transaction is in substance [a] the sale of in-substance real estate..." This would make it clear that the adjective "in-substance" relates to the nature of the entity rather than to the form of the sale transaction. We also suggest that the Staff should evaluate all other guidance in the *FASB Accounting Standards Codification* that relates to real estate transactions to determine if the phrase "insubstance" is appropriately placed to be consistent with the Board's intentions (e.g., in ASC 360-20-15-2, "in substance" modifies sale, while in ASC 360-20-15-3, "in substance" modifies real estate). Further, we suggest that language be added in the proposed ASU that specifically states that non-sale deconsolidation events involving in-substance real estate entities are within the scope of ASC 810.

#### Transactions Resulting in a Retained Equity Investment

Paragraph 2 of the proposed ASU states that "If a parent deconsolidates a subsidiary through a nonreciprocal transfer to **owners**, such as a spinoff, the accounting guidance in Subtopic 845-10 applies." It then indicates that in all other deconsolidation transactions, the accounting guidance in 810-10-40-5 applies.

Where a subsidiary is transferred to its parent's owners in a spinoff transaction and the parent retains an equity method investment in the former subsidiary, we recommend that the proposed ASU clarify that the retained equity method investment be measured at fair value. While the spinoff transaction is within the scope of Subtopic 845-10, it is a significant economic event similar to other deconsolidation events within the scope of Subtopic 810-10 for which the retained equity method investment is recorded at fair value. We believe fair value treatment is also consistent with the Board's views in the Basis for Conclusions in FASB Statement No. 160, paragraph B55 which states "The parent-subsidiary relationship ceases to exist and an investor-investee relationship begins, and that relationship differs significantly from the former parent-subsidiary relationship. Recognizing the retained investment at fair value is more representationally faithful and provides users of financial statements with more relevant information about the value of the retained investment."

### **Terminology for Nonprofit Activities**

Certain paragraphs in the Subtopics that would be amended by the proposed ASU have not yet been updated to reflect FASB Statement No. 164. Among other things, FAS 164 amends certain Subtopics, such as Subtopic 810-10, to incorporate terminology that is appropriate to the financial statements of not-for-profit entities (e.g., net assets, performance indicator). To enhance understandability and avoid inconsistency, we suggest that all Subtopics that would be amended by the proposed ASU be reviewed to ensure that after FAS 164 is codified, no terminology inconsistencies will exist due to the paragraphs added by the proposed ASU.

### **Disclosure of Continuing Involvement**

Paragraph 4 of the proposed ASU would amend the disclosure requirements in 810-10-50-1B to include "the nature of continuing involvement with the subsidiary after it has been deconsolidated."

In many cases, the proposed disclosure could be viewed as redundant with disclosures already required by other U.S. generally accepted accounting principles, such as ASC Topics 323 and 850. For example, ASC 323-10-50 requires disclosure of the name of each investee, the percentage of ownership of common stock, and summarized information about assets, liabilities, and results of operations of investees if the investments are material to the investor's financial statements. ASC 850-10-50 requires disclosure of material related party transactions, including the nature of the relationship

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involved and a description and dollar amount of the transactions. Therefore, we believe the proposed disclosure may be unnecessary.

If, however, the Board decides to require the additional disclosure, we suggest that two modifications be made. First, the proposed disclosure should be made only when there is <u>significant</u> continuing involvement after the deconsolidation. This would be consistent with the guidance in ASC 323-10-50, which calls for the significance of an investment to an investor's financial statements be considered in evaluating the extent of disclosures to be made. Secondly, we suggest that the Board clarify for which reporting periods the proposed disclosure is required. As currently written, uncertainty may exist as to how long the disclosure should be carried forward and updated.

### **Other Comments**

Please refer to Appendix 1 to this letter for other editorial suggestions and comments.

We would be pleased to discuss our comments with the Board members or the FASB staff at your convenience. If you have questions regarding our comments, please contact Larry Dodyk at (973) 236-7213 or John Formica at (973) 236-4152.

Sincerely,

PricewaterhouseCoopers LLP

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### **APPENDIX 1 - Other editorial suggestions and comments**

- In keeping with the real estate wording clarification discussed in our cover letter, the following portions of the proposed ASU contain language that we suggest be modified to place the qualifier "in substance" before the term "real estate" rather than before the term "a sale": Paragraphs 2, 3, 6, 10, BC2(d), BC10, BC 11 and the "Accounting Guidance" paragraph on page 2.
- In paragraph 3 of the proposed ASU, the last sentence of the suggested amendment to 810-10-45-22A could be clarified as follows: "Notwithstanding, if the transaction <u>described in paragraph 810-10-45-22(b)</u> is in <u>substance</u> a partial sale of <u>in-substance</u> real estate, the guidance..."
- In multiple instances throughout the proposed ASU, the phrase "...a subsidiary or group of assets that constitute a business or nonprofit activity..." is used. In these instances, the phrase could be clarified as follows: "...a subsidiary that is a business or nonprofit activity or group of assets that constitute a business or nonprofit activity..." This clarification would be relevant for paragraphs 5 and BC13. Also, in multiple instances throughout the proposed ASU where the term "subsidiary" is used, the following additional language could be added: "subsidiary that is a business or nonprofit activity or group of assets that is a business or nonprofit activity". This clarification would be relevant for paragraphs 6, BC2(c), and BC3.
- In paragraph 12 of the proposed ASU, the language used to describe the effective date is not consistent with that used previously on page 3 of the proposed ASU. Page 3 refers to the "first interim or annual reporting period ending on or after December 15, 2009." Paragraph 12 in 810-10-65-2 (b) refers to "interim and annual reporting periods ending after December 15, 2009 ..." While the meaning may be the same, we suggest identical language be used throughout the document to avoid any possible confusion.
- In BC6 of the proposed ASU, the first sentence could be edited to be consistent with the complete definition of a subsidiary included in the Master Glossary of the FASB Accounting Standards Codification as follows: "Some constituents have also questioned whether the Board intended for the decrease in ownership provisions of Subtopic 810-10 to apply to all entities because a subsidiary is defined as an entity, including an unincorporated entity such as a partnership or trust, in which another entity, known as its parent, holds a controlling financial interest. (Also, a variable interest entity that is consolidated by a primary beneficiary.)"
- In the Amendments to the XBRL Taxonomy, the Deconsolidation, Nature of Continuing Involvement with Subsidiary Description, definition column, the word "any" should be deleted and the sentence should be consistent with the changes being made to ASC 810-10-50-1B.