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Accountants and Management Consultants
The US Member Firm of
Grant Thornton International
National Office
175 West Jackson Blvd.
Chicago, IL 60604-2615

Grant Thornton

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

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We are pleased to respond to the Proposed Statement of Financial Accounting Standards, *Exchanges of Productive Assets—an amendment of APB Opinion No. 29*. We support the changes in the proposed Statement if the concept of commercial substance can be made more operational.

Issue 1: Commercial substance

The elimination of the special provision in Opinion 29, *Accounting for Nonmonetary Transactions*, for exchanges of similar productive assets will relieve the stress on determining what is *similar*; however, it will put considerable stress on the determination of *commercial substance*. It would promote consistency in future financial reporting if the term *commercial substance* were comprehensively described in the proposed Statement and implementation guidance provided.

Proposed paragraph 21 refers to the *configuration (risk, timing, or amount) of the expected future cash flows* and *entity-specific value*. These are both new accounting terms. (Although the concept of entity-specific value is referred to in Concepts Statement 7, *Using Cash Flow Information and Present Value in Accounting Measurements*, it is not a concept used in current GAAP.) Because both of these concepts will be difficult to apply in practice, we believe they should be better explained in the Statement and in the Basis for Conclusions and implementation guidance should be provided. We are unclear how to determine if a difference in one or more elements of the configuration of expected future cash flows (such as risk or timing) is significant to the fair value of the assets exchanged.

Preparers and their auditors also need to understand how the significance of entity-specific value relative to the assets' fair value is determined. Would entity-specific value result from an exchange of similar assets in different geographic locations for an entity-specific business reason such as the following: an entity exchanges a radio station in Boston for a radio station in Charlotte because the entity's long-term plans call for expansion into the Southeast region? It will use the station in Charlotte to begin to learn about regional differences and the resulting modifications that will be necessary to its format and operations. If this is an appropriate example, how would relative significance be determined?

Issue 2: Scope exceptions

We support the scope exception related to Statement 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies.*

Issue 3: Real estate transactions

Statement 66, *Accounting for Sales of Real Estate,* excludes from its scope exchanges of real estate for other real estate and notes that such transactions are within the scope of Opinion 29. The proposed Statement would retain that scope exclusion in Statement 66 "because Statement 66 was designed to deal with transactions involving monetary consideration." However, if real estate were exchanged for equipment, the transaction would presumably be within the scope of paragraph 9 of Statement 66. We agree with the Board's view that Statement 66 is primarily designed to deal with transactions involving monetary transactions, and therefore support the Board's decision to retain the scope exclusion in Statement 66. However, we believe the accounting for nonmonetary exchanges involving real estate should be accounted for consistently and that the Board should try to address the inconsistency between the accounting for exchanges of real estate for other real estate and the exchange of real estate for equipment, if that can be done within the scope of the current project.

Issue 4: Amendment of Statement 140

We do not object to the elimination of the scope exception in Statement 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,* pertaining to exchanges of equity method investments for similar productive assets. However, that scope exception was a fairly recent addition to the original scope exceptions of Statement 125. The Basis for Conclusions should explain why the factors that led the Board to include the scope exclusion for equity method investments exchanged for similar productive assets in Statement 140 are no longer relevant.

No continuing involvement

The EITF is trying to provide clarification and implementation guidance for the term *significant continuing involvement* in EITF Issue 03-13 "Applying the Conditions in Paragraph 42 of FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* in Determining Whether to Report Discontinued Operations." The new characteristic added to the definition of an *exchange* in the proposed Statement— "no continuing involvement in the transferred asset such that all the risks and rewards of ownership of the asset are transferred"—differs from the concept of significant continuing involvement in Statement 144. However, we believe the proposed concept of continuing involvement in the definition of *exchange* in Opinion 29 will also require clarification and implementation guidance. We understand the proposed concept to mean no continuing involvement to the extent the involvement would result in retention of risks and/or rewards of ownership. Therefore, continuing involvement not involving risks and rewards of ownership would not preclude a transaction from being considered an exchange for purposes of the proposed Statement. For example, if the transferor enters into a fixed fee management contract with the transferee, presumably that would not preclude nonmonetary exchange accounting for the transaction. However, retention of a royalty interest would preclude exchange accounting. Clarification of the Board's intent and examples illustrating that intent are needed for consistent application of the revised definition.

We appreciate the opportunity to comment on the proposed Statement and would be pleased to discuss our comments with Board members or the FASB staff. Please direct your questions or comments to Joseph Graziano at (732) 516-5560 or Lailani Moody at (212) 542-9823.

Very truly yours,

Grant Thornton LLP