



December 15, 2006

Mr. Lawrence Smith
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

RE: File reference FSP No. FAS 144-c, Classifying and Accounting for a Depreciable Asset as Held-for-Sale When an Equity Method Investment is Obtained

Dear Mr. Smith:

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the Financial Accounting Standards Board (the "FASB" or "Board") on its Proposed FASB Staff Position No. FAS 144-c, Classifying and Accounting for a Depreciable Asset as Held-for-Sale When an Equity Method Investment is Obtained (the "FSP"). While we support the Board's desire to alleviate possible diversity in classifying and accounting for a depreciable long-lived asset when an entity will hold an equity method investment upon sale of the asset, we do not support the FSP at this time for the reasons noted below.

Scope Clarification

Because of the limited guidance included in the FSP, it is unclear which transactions would fall within its scope. Based upon our reading of the FSP, it appears that there are at least two types of transactions for which the FSP may apply. One view is that the FSP covers only those transactions in which a long-lived asset is exchanged for an equity method investment in the buyer or another entity. Another view is that the FSP also relates to transactions in which an entity sells a portion of a long-lived asset with its remaining interest in that long-lived asset qualifying as an equity method investment. We believe these two types of transactions are fundamentally different and therefore, held-for-sale treatment would vary depending on the type of transaction. Thus, our support for the FSP may differ.

Exchange Transaction View

As it relates to the first set of transactions, in which an entity exchanges a long-lived asset for an equity method investment, both its title as well as language in the second paragraph of the FSP could support this view. In its title, the FSP refers to the accounting and classification of

a held-for-sale asset "when an equity method investment is <u>obtained</u>" while language in the second paragraph states "once the asset is sold, the entity plans to account for <u>its interest in the entity that holds the long-lived asset</u> (or the long-lived asset) as an equity method investment." This language could be interpreted as meaning those transactions in which the seller receives, as part of the consideration, an equity method investment in the entity that purchased the long lived asset.

If it is intended that the scope of the FSP is to apply only to transactions in which an entity exchanges a long-lived asset for an unrelated equity method investment, we believe held-for-sale classification may be appropriate. We note that EITF No. 01-2, *Interpretations of APB No. 29*, attempted to address a similar fact pattern where a controlled asset, not meeting the definition of a business, is exchanged for an equity method investment with no consensus reached. Depending on one's view of the scenario discussed in EITF 01-2, different views may form as to whether the long-lived asset should be classified as held-for-sale. For instance, if one were to view the exchange of an asset for an equity method investment as the full surrender of the long-lived asset in return for an unrelated equity method investment, then held-for-sale classification may be appropriate. On the other hand, if this same transaction is considered a continuation of the rights and economic benefits associated with a long-lived asset which is still partially owned by the seller, then held-for-sale classification would not appear to be appropriate. Since the EITF was unable to reach a consensus, we would suggest the FASB may wish to first address the basis for recording the exchange transaction which then may lead to whether the long-lived asset is considered held-for-sale.

Partial Sale/Dilution Transaction View

Other language in the FSP may indicate that its scope is intended to cover transactions other than the exchange of a long-lived asset for an unrelated equity method investment. For example, the second paragraph of the FSP which reads "the entity sold less than a 100 percent interest in a long-lived asset that is currently being consolidated, and the entity accounts for its remaining interest in the entity that holds the long-lived asset (or the long-lived asset) as an equity method investment" seems to be referencing a partial sale or dilution transaction rather than an exchange of a long-lived asset for an equity method investment.

If the scope of the FSP is intended to address situations in which an entity sells a partial interest in a long-lived asset while retaining an equity method investment in that asset, we do not believe held-for-sale accounting is appropriate. Given the wide range of partial sale or dilution transactions that result in retention of an equity method investment, it would be difficult to support held-for-sale treatment for each and every one of these transactions. For example, an entity with a 100% interest in a long-lived asset may sell 80% of that asset and retain a 20% equity method investment. In another example, an entity with a 51% interest in a subsidiary which holds a long-lived asset may sell only a 2% interest with its remaining 49% investment accounted for under the equity method. In a third example, an entity may sell only 10% of a wholly-owned subsidiary, but also provide certain participating rights to the minority investor. In all three of these cases, an entity sells a portion of its ownership interest in a long-lived asset but retains a significant investment in and significant influence over the

asset sold. Based on the language in the second paragraph of the FSP, each of these three transactions would presumably be within its scope and thus, classified as held-for-sale.

If the FASB believes the FSP would also apply to these fact patterns as well, we would object to the FSP. In all of these situations, an entity's investment is merely being diluted and, as illustrated above, only a fraction of ownership change could lead to a switch to equity method accounting. Classifying an asset as held-for-sale when only a percentage of that asset is sold does not appear consistent with the principles of FAS 144 as we do not believe this would "qualify for recognition as a completed sale" as contemplated by paragraph 30d of that standard. Additionally, it seems counter-intuitive to cease depreciation while the asset is held-for-sale only to resume depreciation through the application of the equity method of accounting once the partial sale is complete. Furthermore, since the FSP did not address whether and how the entity would "catch-up" the depreciation upon application of the equity method of accounting, we note that diversity would likely be created.

Concluding Remarks

As a result of these concerns, we do not support the issuance of the FSP. If the FASB only intended the scope of the FSP to address those situations in which a long-lived asset is exchanged for an equity method investment as mentioned above, held-for-sale classification may be appropriate depending on one's view of that transaction. However, if the FASB intended on the FSP applying to those transactions in which an entity's investment in a long-lived asset is merely diluted, held-for-sale classification would not seem appropriate. Rather, held-for-use classification, with continued depreciation would appear more appropriate given the significant influence the entity still maintains over the asset sold. We also note that treatment as held-for-use rather than held-for-sale alleviates complexity likely to be caused by virtue of the basis difference created when an entity ceases depreciation while the asset is held-for-sale and then resumes depreciation once the partial interest in that asset is sold.

If you have questions regarding our comments, please contact Pamela Schlosser at (973) 236-5502 or Larry Dodyk at (973) 236-7213.

Sincerely,

PricewaterhouseCoopers LLP