January 22, 2016

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


Dear FASB Board Members and Staff:

The PNC Financial Services Group, Inc. ("PNC" or "we") appreciates the opportunity to comment on the Proposed Accounting Standards Update: File Reference No. 2015-330: Business Combinations (Topic 805): Clarifying the Definition of a Business ("Proposed ASU"). PNC supports the Financial Accounting Standards Board’s ("the Board’s") efforts to clarify the definition of a business. We agree that the current definition does not provide sufficient clarity to promote a consistent application of the guidance. Additionally, we believe that analyzing transactions under the current guidance sometimes does not reflect the underlying economics. While we agree with many of the provisions within the Proposed ASU, clarification is needed on several points. We believe clarifications are required to ensure the operability of the Proposed ASU and prevent unintended diversity in practice.

Concentration of Fair Value Threshold Test

We agree that the threshold included in 805-10-55-9A through 55-9C ("Threshold Test") represents a pragmatic approach to conclude on whether an acquisition is for a business or assets without having to evaluate all of the criteria included in paragraphs 805-10-55-5A through 5D ("Proposed Framework"). As mentioned earlier, certain clarifications should be made to ensure consistent operability of the new guidance. We believe the term "substantially all" as used in 805-10-55-9A should be further defined. The term is inconsistently defined or left undefined between different areas of the codification. If left unclarified, diversity in practice could result as parties analogize to where it is already defined. Additionally, the Board should also consider moving the Threshold Test to be before 805-10-55-5A through 5D since those paragraphs are not considered if the threshold is met.

We are also unsure as to whether "fair value of the gross assets acquired" relates to those gross assets acquired which are recognized or to all gross assets acquired, even those that may not be recognized for financial reporting purposes. For instance, only certain intangibles are recognized if they meet the

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1 - ASC 840-10-20 indicates substantially all to be a 90% threshold as it relates to the minimum lease payments lease classification criterion only. ASC 860 leaves the term undefined, leading to some diversity in practice as some entities analogize to ASC 840. The proposed accounting standards update on Topic 606 relating to narrow scope improvements and practical expedients similarly does not define substantially all, but Case E provides an example where 94% is considered substantially all. Another example defines 5% as not being substantially all, leaving a large undefined range for what could be considered substantially all.
separability criteria within ASC 805. One common example within the banking and capital markets industry are acquired workforces. Acquired workforces are not generally recognized as a separate asset in a business combination. Also unclear is if any amount in excess of net assets identified should also be included. If the fair value of the gross assets acquired is left unclarified, we believe that this would lead to the broad interpretations that the Proposed ASU is trying to prevent.

The proposed ASU could be further enhanced by clarifying how a group of assets should be identified. While 805-10-55-9C provides clear and explicit guidance on when acquired assets should not be considered a group of similar assets, guidance for when they should be combined was not present in the Proposed ASU. For example, in process research and development is combined in Case E, but the example does not discuss why the multiple research and development projects acquired were combined together (i.e., balance sheet classification, functionally similar).

An example not illustrated within the implementation guidance would be an acquisition of loans, leases, and related origination personnel. 805-10-55-9C(d)\(^2\) within the proposed ASU is unclear whether the loans and leases would be considered two groups of assets, or if they could be considered a single group of assets. One could argue that the loans and leases could be classified into separate financial statement line items and would therefore be different major classes of financial assets under subpart d. One could also argue that they are both receivables and should therefore be considered a group of similar assets. Further examples would be useful in communicating the Board’s intent and improve operability.

The Board should also clarify whether they intended that the Threshold Test and the Proposed Framework could be capable of producing different conclusions. In some acquisitions, an organized workforce critical to producing outputs is acquired. If the fair value of the workforce is a small percentage of the transaction’s consideration, one might conclude that the transaction is an asset acquisition under the Threshold Test but a business combination under the Proposed Framework.

**Definition of a Business**

We agree that a business can be defined, at a minimum, as an input and a substantive process which together contribute to the ability to create outputs. We also agree with the removal of the hypothetical market participant test (805-10-55-5) as it does not reflect what was actually acquired. The current guidance forces speculation into whether a market participant could acquire a set of inputs or processes to produce outputs. A market participant is often capable of acquiring additional inputs or processes. This concept unnecessarily biases the conclusion towards a business combination.

While we agree with the concept of a substantive process, we believe further examples would helpful for preparers. In particular, the examples should clarify how acquired contractual arrangements could be considered an organized workforce under 805-10-55-5D within the Proposed ASU. We believe additional examples would be helpful to fully illustrate the provision for industries other than real estate.

\(^2\) 805-10-55-9C – “For purposes of applying the guidance in paragraph 805-10-55-9A, the following should not be combined into a single asset or considered similar assets:”
Subpart d – “Different major classes of financial assets (for example, cash, accounts receivable, and marketable securities)”
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We appreciate the opportunity to share our views with the Board. We welcome any questions or comments you may have on this letter. Please contact me (412-762-7546) with any questions about PNC's comments.

Sincerely,

John J. Matthews  
Director of Finance Governance Oversight & Policy  
The PNC Financial Services Group, Inc.

cc: Mr. Gregory H. Kozich  
Senior Vice President and Corporate Controller  
The PNC Financial Services Group, Inc.