



May 30, 2012

Susan M. Cospers
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Financial Accounting Standards Board
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File Reference: No. EITF- 11A, Exposure Draft: Parent’s Accounting for Cumulative Translation Adjustment upon the Sale or Transfer of a Group of Assets that is a Nonprofit Activity or a Business within a Consolidated Foreign Entity

Dear Ms. Cospers,

Johnson & Johnson welcomes the opportunity to comment on the FASB’s revised exposure draft for CTA upon the sale or transfer of a group of assets that is a nonprofit activity or a business within a consolidated foreign entity (the “proposal”). Johnson & Johnson with approximately 117,900 employees worldwide engaged in the research and development, manufacture and sale of a broad range of products in the health care field. The Company conducts business in virtually all countries of the world with the primary focus on products related to human health and well-being.

Johnson & Johnson would like to comment on the proposed statement of financial accounting standards related to the above mentioned topic. We understand and agree with the objective of the FASB to reduce diversity in practice.

We understand that the proposal is intended to create a more systematic single approach to calculate the amount of CTA released into earnings upon the sale or transfer of an asset or an asset group. We believe that the operational ability to do this will increase diversity since the amounts allocated are subjective to whether or not the asset is a “business” (as defined under current US GAAP). The current guidance under ASC 830 already reduces this subjectivity, by defining when to release CTA into the income statement (when there is “substantially complete liquidation”). In practice, the “substantially complete liquidation” implies that at least 90% of the assets in the foreign entity are liquidated. Additionally, the practice is not to release CTA to the income statement when reinvestment in other assets occur within the entity.

In our opinion, applying the proposed guidance would create subjectivity. The operational ability to systematically release CTA as a result of a partial sale of a tangible or intangible asset in a particular entity would be arbitrary since the foreign entity may still substantially exist. If the company sold a global brand that has rights in various countries, but retains significant assets in these countries for supporting other operations for remaining brands, the proposed guidance would require CTA to be released. The CTA related to this global right may be based on an arbitrary formula that may not be connected to the initial value of the right acquired. Secondly, this right may be replaced with another right or asset as proceeds from the divestment could be reinvested back to the countries. We believe that releasing the total CTA related to this asset and then to reinvest back into these countries distorts financial reporting. We also see the same situation if one country transfers an asset to a different country with a different functional currency. For the most part, companies do not have systems that track individual assets and the associated CTA.



The divestitures of groups of assets that meet the definition of a business tend to be brands or product lines and not legal entities. These brands may be sold globally and belong to and are marketed by numerous Johnson & Johnson affiliates around the world. These brands may be one of several within a larger portfolio.

When a product brand is divested, transactions would be recorded at each of the legal entities that have an asset related to that brand. Transferring CTA into income would be inconsistent with the economic substance of the transaction.

We also foresee challenges in allocating CTA to shared assets. If we follow the 810-10 definition that refers to a “group of assets that meet the definition of a business”, then we should also consider the Property, Plant, Equipment and Other Assets that supported the divested brand or business. There may be manufacturing and other facilities that support other brands and thus retained by Johnson & Johnson and not sold along with the divested brand. Our opinion is that adjustments to CTA based on the discontinued use of an asset, which may be retained for other activities, would be inappropriate, leading to ambiguous results.

Under this proposed guidance, the reporting adjustment for any divestiture would require extracting a partial amount of CTA within an entity, multiplied by several entities to derive a single amount for a consolidation adjustment. We believe in order to develop and maintain a tracking mechanism for CTA by asset and by entity would be costly. Given that the allocation methodology may be subjective, we believe the additional precision is arguable and of limited or no useful value.

Based on our industry’s transactions and experiences, the proposed draft would change already well-accepted practices of releasing CTA under FAS 52 (ASC 830). This change could have unforeseen unintended consequences. The Boards should provide further insight on whether or not the objective will be met with the proposal.

Thank you very much for taking our comments into consideration.

Sincerely,

Stephen J. Cosgrove
Vice President, Corporate Controller