AICPA® PCPS
Private Companies Practice Section

American Institute of CPAs
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August 4, 2015

Susan M. Cosper, CPA
Technical Director
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Re: June 5, 2015 Exposure Draft of a Proposed Accounting Standards Update (ASU), *Investments—Equity Method and Joint Ventures (Topic 323): Simplifying the Equity Method of Accounting* [File Reference No. 2015-280]

Dear Ms. Cosper:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the ED and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC agrees with most of the simplification provisions of the ED and would support its issuance as a final ASU. However, TIC believes capitalization of interest incurred by the investee should not be eliminated.

TIC's responses to all of the questions for respondents are presented below.

SPECIFIC COMMENTS

Question 1: Should accounting for the basis difference of equity method investments as if the investment were a consolidated subsidiary be eliminated? Why or why not? Would amortization of the entire basis difference through equity method earnings be preferable? If so, what would be the suggested amortization period?

Yes, the basis difference should be eliminated. It provides minimal decision-usefulness to users, since the equity method investee does not have the capacity to capitalize on the fair value of the investment.

TIC believes amortization of the entire basis difference through equity method earnings would not be preferable. The basis difference and the related amortization are non-cash items that would not provide users of private company financial statements with any relevant information that would be decision-useful. TIC also agrees with the rationale in paragraph BC6, which states that the amortization alternative would reduce neither cost nor complexity.

TIC also believes many private company preparers, auditors and financial statement users do not account for the basis difference today.

Question 2: Should the accounting for capitalized interest, which adds to the basis of an entity's equity method investment and is amortized, also be eliminated for equity method investments? Why or why not?

The capitalization of interest should not be eliminated for an entity's equity method investments. TIC recommends that this be an accounting policy choice, with appropriate disclosure required. Capitalized interest related to equity method investments may be a significant practice in certain industries, such as real estate development and others, and should be retained, if relevant.

Question 3: Should an entity be required to apply the proposed amendments related to accounting for the basis difference on a modified prospective basis as of the effective date? Why or why not?

TIC believes the modified prospective basis, as described in paragraph BC16, is preferable as a cost-effective measure.

Question 4: Should an entity no longer be required to retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest? Why or why not?

TIC believes that private companies should not have to retroactively adopt the equity method of accounting when an increase in the level of ownership of an investee has occurred. TIC supports the arguments presented by the Board in paragraphs BC12 – BC13 that cite the potential implementation difficulties of retroactive adoption and the lack of relevance to financial statement users.

Question 5: Should the proposed guidance to eliminate the requirement to retroactively adopt the equity method of accounting be applied prospectively? Why or why not?

TIC supports applying the proposed simplification on a prospective basis to further mitigate costs for preparers.

Question 6: How much time will be necessary to adopt the amendments in this proposed Update? Should early adoption be permitted? Should the amount of time needed to apply the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities?

Since the amendments would change the requirements of Topic 323 and would not be optional, TIC believes the Board should allow a full-year transition period for private companies so that one complete training cycle may occur before implementation is required. If a one year transition period is not provided, the final ASU may become effective before many nonpublic entities have an opportunity to become aware of the changes. Once preparers become aware of the new standard, implementation effort would be minimal. TIC also supports an early adoption provision so that private companies can utilize the potential savings as soon as they become aware of the amendments.

Question 7: Would the proposed amendments meet the objective of the Simplification Initiative, which is to improve GAAP by reducing cost and complexity while maintaining or improving the usefulness of the information provided to users of financial statements? Why or why not?

Yes, TIC believes the proposed amendments meet the objectives of the simplification initiative because it reduces the cost and complexity of applying the equity method without sacrificing the usefulness of the financial statements to users.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

Scot Phillips, Chair
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees