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FASB
Technical Director
File Reference No. 2015-280
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Via: director@fasb.org

RE: Proposed Accounting Standards Update-Investments-Equity Method and Joint Ventures (Topic 323)

Below, are my comments are the above proposed accounting standards. Comments are those of myself and are not necessarily those of the Company. The response below shall listed in the manner in which asked in the proposal.

Question 1: There is full agreement with the elimination of the basis difference in equity method of accounting. When an investment is made, we can reasonably assume that the value paid for the investment is, in the viewpoint of the investor, a net value of the assets at that time. As such, the costly analysis of fair value of assets and liabilities, is, in simple terms, an exercise in redundancy.

For instance, we decide to invest in a business venture (whether stock or other corporate joint venture) the sum of $100 for a 25% interest. Our agreement to make this investment at that amount, is our internal valuation of the net value. Getting financials to separately determine the FMV of the assets and liabilities is of no value to the investor. The net FMV of the entity, from the investor, assuming a normal arms length transaction, is still the $100. Generally, it is my belief that the investor is really investing based upon expected share of the earning capacity of the entity (or value from association with the entity), and not the assets themselves.

Question 2: Interest should not be capitalized and added to the basis. An investment in an entity that has not yet begun operations most likely already encompasses the fact that operations have not yet begun. Also, the investee is probably capitalizing interest on the assets during the pre-operation period. In essence, it means that the investor is then reflecting capitalized interest twice; once through the investee and then again on its investment.

Question 3: One of the major goals of this proposal is to simplify the accounting while still providing useful information. The reality, which would reference back to question 1, is that the investment amount, adjusted for earnings subsequent to the initial investment, is the value of the entity. This entire modified prospective basis, which is agreed to, would bring the amount back to the value on acquisition. In my humble opinion, nobody looks at the investment as two separate components, not management, or other stakeholders. So, there is no value in not just merging the amounts. We can look at this in a similar simplification to debt issuance costs now being treated as a reduction of the debt as opposed to an intangible asset.

Question 4: Most definitely, do not retroactively revalue the investment. If payment was made for a 10% interest for $25, and in a future year, an additional 15% is acquired for $75, then, the value to the investor is $100, not $125. The reason is that it can be inferred that the investor, at the time of increasing its equity participation, has considered the initial cost and the additional amount invested, and has conclude that, in their estimation, the total value is $100, not the $125. The flaw in the use of retroactive application is that consideration is based only upon the single event (in this case the $75 for 15%) as being the overall valuation basis, rather than the investor looking at the total investment being made in their valuation assessment.

Question 5: We are looking for simplification that also adds useful information. As such, the cost to go back would far exceed any value to the investor or its stakeholders. Restatement will not affect decisions in the future, and will only serve to complicate and confuse.

Question 6: Using the prospective only approach, and elimination of basis differences, will permit a very short time for implementation of the standard. It could be handled very simply in that other than merging say two accounts, no additional efforts are required. Therefore, the effective date could be the first reporting period after issuance.

Question 7: Yes, this proposal does simplify and improve GAAP. The elimination of the FMV and retroactive aspects greatly would reduce cost and complexity. Users of the financial statements look at the investment based upon expected return. As such, a single line for the investment and the share of earnings each period, provides the information all stakeholders need in the providing of useful information.

Thank you for permitting me to express my viewpoints on this matter.

Respectively Submitted,

Louis W. Sanford, CPA, CGMA
CFO
1859 Historic Hotels, Ltd
PO Box 59
Galveston, TX 77553
Lousanford54@yahoo.com