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Comment Letter No. 3

David W. Lambert
Senior Vice President and Chief Financial Officer

Plum Creek Timber Company, Inc.
601 Union Street, Suite 3100
Seattle, Washington 98101
T: 206-467-3600

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Submitted via email (director@fasb.org)

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

Proposed Accounting Standards Update, Investments – Equity Method and Joint Ventures (File Reference No. 2015-280)

Plum Creek appreciates the opportunity to provide its views on the FASB's Proposed Accounting Standards Update, *Investments – Equity Method and Joint Ventures (Topic 323).*

We support the FASB's objective in its simplification initiative to reduce the cost and complexity of financial reporting while improving or maintaining the usefulness of the information provided to financial statement users. We would generally agree that to date the proposals associated with the FASB's simplification initiative have both reduced cost and complexity while also improving or maintaining the usefulness of the information provided to financial statement users.

However, we believe that the equity method simplification proposal will NOT reduce the cost and complexity of financial reporting and it will NOT maintain the usefulness of information provided to financial statement users. Our views are based primarily on our existing equity method investments and how their accounting will be impacted by this proposal.

Our concerns relate primarily to the anticipated increase in the cost and complexity associated with testing equity method investments for impairments, along with the anticipated cost associated with computing impairment charges. We are equally concerned with how the proposal will impact the reporting of distributions from equity method investments in the cash flow statement. Furthermore, we also believe the proposal could impact the significant subsidiary disclosures required by Article 4 and Article 10 of the Securities and Exchange Commission's Regulation S-X.

We begin by expressing our views on impairments. We believe the reduction in cost and complexity associated with eliminating the requirement to amortize basis differences will be more than offset by the requirement to test equity method investments for impairments, along with the periodic write-down of our equity method investments to fair value. Furthermore, we believe that the one-time cost associated with the initial purchase price allocation, along with establishing a

systematic and rational method for amortizing our basis difference, will be relatively insignificant compared to the cost and complexity associated with the ongoing testing of equity method investments for impairment. We also do not believe the costs associated with the initial purchase price allocation is significant because we generally find an appraisal is needed to confirm we are making a sound investment decision.

We believe our views can best be expressed by a simplified example. In our example, we assume that on January 1, 2014, we invested $150 million for a 50% interest in a real estate joint venture that will be accounted for under the equity method of accounting. Our share of the joint venture's net basis in its assets at the acquisition date is $50 million. The primary business purpose for the joint venture is to make limited land improvements and sell approximately 200 parcels over a seven year period. Parcels sold during 2014 generated proceeds of $50 million and earnings for the joint venture of $30 million. Prior to our basis amortization, our share of the earnings were $15 million and after amortizing our basis difference we had an equity method loss of $1 million. Additionally, we received distributions from the joint venture of $15 million during 2014. Ignoring for this example additional capital contributions, under exiting guidance our equity method investment decreased from $150 million to $134 million during 2014 (initial investment of $150 million, less equity method loss of $1 million, less distributions of $15 million). However, under the proposed guidance our equity method investment would be unchanged and would be $150 million at both the beginning and end of 2014 (initial investment of $150 million, plus equity method earnings of $15 million, less distributions of $15 million).

The essence of our issue with the proposal is that while the joint venture disposed of ten percent of its properties during 2014, our book basis in our equity method investment was unchanged. Given the fact that the joint venture disposed of ten percent of its properties during 2014 and that there was not a reduction in the book basis of our equity method investment based on the guidance in the proposal, our investment would likely be impaired at the end of 2014. However, the only way to know if our investment is impaired is to incur a costly appraisal. We believe this issue of testing our investment for impairment and the periodic write-down of our investment to fair value will occur over and over throughout the term of the joint venture as development properties are sold. This ongoing impairment issue is primarily the result of two factors – first is the fact that our share of the book basis of the joint venture's net assets is much lower than the book basis in our equity method investment; and second is the fact that under the proposal we are not amortizing our basis difference in computing and reporting our equity earnings.

We believe that testing our equity method investments for impairment on a regular basis is both complex and costly. We noted that the simplification proposal does not amend the impairment guidance for equity method investments. Therefore, based on the guidance in ASC 323-10-35-31 and -32, there are several indicators of impairment for equity method investments such as a series of operating losses by the investee and the inability of the investee to sustain an earnings capacity that would justify the carrying amount of the equity method investment. These indicators will be difficult to apply given the joint venture's low book basis in its real estate development properties. We believe that based on the vagueness of the impairment indicators, management will have significant discretion in deciding which quarter an equity method

investment has been impaired. We also believe management will be able to exercise significant judgment in determining the amount of the impairment recorded. Furthermore, we believe that costly appraisals will be required on an ongoing basis to determine if an equity method investment has been impaired; and if impaired, the extent of the write-down.

Our second concern relates to the cash flow statement presentation of distributions received from equity method investments. We believe that based on the guidance in ASC 230-10-45-12 and -16, it is important to determine whether distributions from an equity method investment represents a return **on** the company's investment or a return **of** the company's investment. We believe that based on the guidance, that distributions that represent a return **on** an investment are reported under operating activities while distributions that represent a return **of** an investment are reported under investing activities. We believe the common practice for determining whether a distribution from an equity method investment is reported under operating activities or investing activities is based on a comparison of cumulative equity earnings to cumulative distributions. To the extent cumulative equity earnings exceed cumulative distributions, distributions are reported under operating activities. Otherwise, distributions reported under operating activities are limited to cumulative equity earnings.

We believe the simplification proposal will significantly change the cash flow statement presentation of distributions from equity method investments. Continuing with the above example, during 2014 a distribution of $15 million was received from an equity method investment in which there was an equity method loss of $1 million. We believe that based on current guidance, all of the $15 million distribution would be reported under investing activity because the distribution represents a return **of** the investment. However, under the proposal, since there is no basis amortization and equity method earnings would be $15, we believe the entire $15 million distribution would be reported under operating activities and purport to represent a return **on** the equity method investment. We believe this change in reporting will be misleading to investors.

A final, but lesser, concern is how the proposal will impact the SEC's significant subsidiary disclosures under Article 4 and Article 10 of Regulation S-X. Based on current SEC guidance, the significance of an equity method investment to a registrant is based, in part, on reported equity earnings inclusive of any basis amortization. For example, using the above facts, currently the test would be based on an equity method loss of $1 million compared to an equity method earnings of $15 million under the simplification proposal. We believe the proposal will likely cause expanded disclosures for insignificant investments and will eliminate some disclosures for material equity method investments.

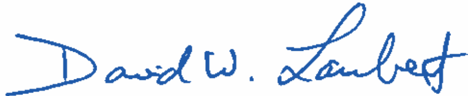
We noted in the exposure draft that one of the reasons for the equity method simplification proposal is that stakeholders (e.g., investors) believe the requirement to amortize basis difference is costly and complex and does not provide investors with useful information. While this may be true, we believe that if investors understood the additional cost and complexity associated with testing equity method investments for impairments on a regular basis along with the extensive judgment management can exercise in determining the timing and amount of impairment

charges, we believe stakeholders would have a different view regarding this simplification proposal. We also believe that if stakeholders understood the changes this proposal is making to the presentation of distributions from equity method investment in the cash flow statement, they would find this revised presentation misleading.

Finally, we do not have any suggestions regarding how existing guidance can be improved. We believe that the accounting for equity method investments is relatively complex. However, we believe the existing guidance does a reasonably good job of reflecting the economic reality of such investments in the financial statements.

Thank you for the opportunity to express our views on the Proposed Accounting Standards Update, *Investments – Equity Method and Joint Ventures (Topic 323).* We would be pleased to discuss our views at any time. If you have any questions, please contact me at (206) 467-3600.

Sincerely,



David W. Lambert
Senior Vice President and Chief Financial Officer

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