plante moran

Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

July 23, 2015

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

Via e-mail – **director@fasb.org**

Re: File Reference No. 2015-280. Proposed Accounting Standards Update: Investments – Equity Method and Joint Ventures (Topic 323): *Simplifying the Equity Method of Accounting*.

Plante & Moran, PLLC appreciates the opportunity to comment on the proposed Accounting Standards Update, *Simplifying the Equity Method of Accounting.* We support the efforts of the Financial Accounting Standards Board to continue to identify opportunities to reduce the cost and complexity associated with financial reporting requirements, without diminishing the decision-useful information provided to investors and other financial statement users. Following, please find our responses to the specific Questions for Respondents in the Proposed Update.

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?

Response 1: Yes, we agree with the proposal to eliminate the accounting for the basis difference of equity method investments as if the investment were a consolidated subsidiary. Currently, GAAP requires an investor to determine the acquisition date fair value of the identifiable assets and liabilities of the investee. As the investor does not control the investee, it does not always have access to the investee's financial records, which can make it difficult and costly to estimate the fair value of the investee's identifiable assets and liabilities. Often times, these estimates are imprecise, or if a reliable estimate cannot be made, the entire basis difference is treated as goodwill. As a result, subsequent accounting for these basis differences as if the investee were consolidated is not warranted. We believe that any difference between the amount paid by the investor and the investor's proportionate share of the underlying book value of the investee's assets and liabilities should be included in the carrying value of the investment. Any subsequent declines in the fair value of the investment will be appropriately addressed by the impairment guidance in Topic 323.

Furthermore, we do not believe amortization of the entire basis difference through equity method earnings is preferable to including such amounts in the carrying value of the investment as described above.

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?

Response 2: Yes, we agree that the accounting for capitalized interest related to equity method investments should also be eliminated. Capitalization of interest related to equity method investments is consistent with the concept that an equity method investee should be accounted for as if it were a consolidated subsidiary. With the proposed elimination of that concept, capitalization of interest cost related to equity method investments should no longer be required. In addition, because the investor does not control the activities of the investee, it can be difficult to obtain the necessary information to determine the amortization period for the capitalized interest.

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?

Response 3: Yes, we agree that the proposed amendments should be applied on a modified prospective basis. We believe that, as of the effective date of the proposed amendments, all basis differences for equity method investments should be accounted for similarly to make financial statements consistent for all entities with equity method investments. However, retrospective application of the proposed guidance would result in significant application costs with minimal additional benefit to users of the financial statements.

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?

Response 4: Yes, we agree that an entity should no longer be required to retroactively adopt the equity method of accounting when an investment qualifies for the use of the equity method due to an increase in level of ownership interest. As the investor does not have control of the investee, the investor does not always have access to the financial information required to retroactively adopt the equity method in these situations. Furthermore, the investors are often required to prepare fair value estimates at dates that could be several years in the past, which further complicates the process and increases the likelihood that a reliable estimate cannot be made. In addition, we do not believe retroactive adoption provides a significant benefit to users of financial statements.

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?

Response 5: Yes, we agree that the proposed guidance to eliminate the requirement to retroactively adopt the equity method of accounting should be applied prospectively. Retrospective application of this requirement would be complex and costly for preparers, while providing limited benefit to users of financial statements.

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?

Response 6: The time needed to implement the proposed amendments is not expected to be significant. Entities should already have the information needed to comply with the proposed amendments. As the goal of the proposed amendments is to simplify the accounting for equity method investments, we believe early adoption should be permitted once the final Update has been issued. In addition, because there is not expected to be significant time or cost associated with complying with the proposed amendments, we do not think entities other than public business entities would need additional time to adopt the proposed guidance.

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 the financial statements? Why or why not?

Response 7: We believe the proposed amendments would meet the objective of the Simplification Initiative. We believe the proposed guidance would reduce the costs of applying the equity method of accounting for investments, especially in situations where the investor in an equity method investment does not have access to all of the investee's financial records. In addition, we do not believe the simplifications proposed in this Update would reduce the usefulness of information being provided to users of the financial statements.

Thank you again for the opportunity to comment on this exposure draft. We would be pleased to respond to any questions the Board or its staff may have about these comments. Please direct any questions to David Grubb at **david.grubb@plantemoran.com** or at 248.223.3745.

Very truly yours,

PLANTE & MORAN, PLLC