

July 28, 2015

Ms. Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

File Reference No. 2015-280

Dear Ms. Cospers:

McGladrey LLP is pleased to comment on the Proposed Accounting Standards Update (ASU), *Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Equity Method of Accounting* (the "proposed ASU"). We continue to support the Board's Simplification Initiative to identify, evaluate, and improve areas of generally accepted accounting principles (GAAP) for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of the financial statements.

In addition to our overall support of the Board's Simplification Initiative, we support the provisions of this proposed ASU and its amendments to the existing guidance on the equity method of accounting, as modified by our comments below. Our responses to the "Questions for Respondents" on which specific comment is sought, along with comments and suggestions on other matters in the proposed ASU, are included below for your consideration.

Responses to Questions for Respondents

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?*

In general, we support the proposed amendments included in the ASU to eliminate the requirement for an investor to separately account for the basis difference of an equity method investee on an asset-by-asset basis. The existing equity method guidance requires a process similar to that used for consolidation in a business combination. However, as noted within the proposed ASU, an equity method investor may not have access to the information necessary to determine the acquisition-date fair value of the investee's separately identifiable assets and liabilities and, as a result, the amount of equity method goodwill.

Rather than allocating the basis difference to the separately identifiable assets and liabilities, we believe that the entire basis difference should be amortized through equity method earnings over 10 years on a straight-line basis, or less than 10 years if the entity demonstrates that another useful life is more appropriate. Prior Board research indicates that a significant portion of the assets and liabilities of investee entities would be fully used up or satisfied by the 10th year. Amortizing the total basis difference over 10 years would also reduce the cost and complexity in financial reporting because it will reduce the likelihood (compared to the approach in the proposed ASU) that an equity method investment would have an other-than-temporary impairment. If a triggering event were to occur that would require impairment testing, the limited access to the information necessary to determine the investee entity's fair value would make it difficult for the equity method investor to perform the test. In regard to the proposed amortization

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period for the basis difference, although 10 years is an arbitrary period, we believe it represents a practical solution for a useful life that would mirror the useful life for goodwill that is amortized under the private company accounting alternative allowed by ASU 2014-02, *Intangibles – Goodwill and Other (Topic 350): Accounting for Goodwill*.

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?*

We support the proposed guidance that would eliminate the current guidance on amortizing interest capitalized on investments accounted for by the equity method over the lives of the associated assets, provided that it would be amortized in a manner consistent with our response to Question 1. If the board determines that the basis difference should not be amortized, we believe that the requirement to capitalize the interest should be eliminated or if capitalized it should be amortized over the life of the associated assets.

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?*

We believe that the proposed guidance related to accounting for the basis difference should be applied on a modified prospective basis as of the effective date. The modified prospective basis will reduce the cost and complexity of transition for most entities and, therefore, is an appropriate transition approach for this simplification project. If the Board decides to include in the final ASU our recommendation to amortize the entire basis difference over 10 years, additional transition guidance would be necessary for pre-existing basis differences on equity method investments. For any basis difference that exists as of the date of adoption, we believe that such existing basis difference should continue to be amortized over the remaining previously-determined useful lives of the investee's assets, not to exceed 10 years. Further, we believe that, any portion of the existing basis difference that relates to equity method goodwill or to an indefinite-lived intangible asset should begin to be amortized, as of the date of adoption, consistent with our response to Question 1.

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?*

We support the proposed guidance that would no longer require an entity 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. We believe eliminating this requirement would reduce the cost and complexity in financial reporting because investors may not have access to the information necessary to retroactively apply the equity method.

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?*

We agree that the proposed guidance on eliminating the requirement to retroactively adopt the equity method of accounting should be applied prospectively. The prospective basis will reduce the cost and complexity of transition for most entities and, therefore, is an appropriate transition approach for this simplification project.

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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?*

We believe that the expected transition time and costs of adopting the proposed ASU will be minimal. Therefore, we do not believe the amount of time needed to apply the proposed amendments by entities other than public business entities would be different from the amount of time needed by public business entities. As a result, we believe that requiring the proposed amendments to be effective for annual periods and interim periods within those annual periods beginning after December 31, 2016 would provide sufficient time for adoption. Further, we believe that early adoption should be permitted for all entities as there is no compelling benefit to prohibiting early adoption of the proposed ASU.

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?*

We believe that the proposed ASU, if modified consistent with our response to Question 1 and our additional comments below, meets the objective of the Simplification Initiative reducing cost and complexity while maintaining or improving the usefulness of the information provided to users of financial statements.

Other Comments and Suggestions

We believe the Board should reconsider its proposed amendments to the disclosure requirements in paragraph 323-10-50-3. We believe that disclosure of the basis difference would be useful information to users of financial statements and the ability to obtain the information would not generally be difficult. We believe the following language would be more appropriate for the proposed amendment to subparagraph a.3. of paragraph 323-10-50-3:

- The difference, if any, between the amount at which an investment is carried and the amount of the underlying equity in net assets.

If the board decides to accept our suggestion of amortizing a basis difference, then we do not believe that the current guidance would require modification.

We appreciate this opportunity to provide feedback on the proposed ASU and would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions to Rick Day at 563.888.4017 or Michael Hoffman at 612.455.9442.

Sincerely,



McGladrey LLP