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To: Director - FASB
Subject: Investments —Equity Method and Joint Ventures (Topic 323) File Ref.2015-280

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File Reference No. 2015-280
Financial Accounting Standards Board
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Regarding: Investments - Equity Method and Joint Ventures (Topic 323)
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Colleagues,
Thank you for the opportunity to comment on Equity Method and Joint Ventures.
The questions to be addressed in this comment are set forth below.
[1,2,3,4 and 7]

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?

Probably not. Accounting for the basis difference of an equity method investment(s) as though the investment was a consolidated subsidiary should remain in place. Eliminating the basis difference amortization and recognizing the investment at cost could create a permanent and material valuation discrepancy between the investor and the investee.

In addition, suppose a court had to trace through the accounting in a dispute between the investor(s)and investee. Oversimplifying the accounting could create a more difficult audit trail for the court to traverse. Another example would be a court supervision of a Quasi-Reorganization in bankruptcy procedure.

A simpler approach might be to amortize the entire basis differential, including g oodwill , over a period in which the investor benefits economically from the investment not to exceed a predetermined rational time period.

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 accounting for capitalized interest on an investment should remain in place. Interest costs are an important part of the cost of acquiring an asset. Amortization should continue over the useful life of the investee’s assets. Specifically, by omitting the amortizing basis differences, reporting entities may report larger equity method investment assets and higher earnings under the equity method.

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?

No, See the arguments in (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?

The requirement to retroactively adopt the equity method of accounting might be eliminated for any reporting periods in which the investor did not have a significant or a controlling influence over the investee.

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?

The proposed amendments do not universally simplify accounting for equity investments per se. These amendments might reduce costs for some but deprive other strategic information users or constituencies of valuable disclosure information about the investor and investee.

Sincerely,
Dr Joseph S Maresca   CPA, CISA