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July 30, 2015

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

RE: Exposure Draft, "Investments—Equity Method and Joint Ventures (Topic 323): Simplifying the Equity Method of Accounting" (File Reference No. 2015-280)

Dear Technical Director:

We appreciate the opportunity to comment on the FASB Exposure Draft, *Investments—Equity Method and Joint Ventures (Topic 323): Simplifying the Equity Method of Accounting*. We agree with the Board that areas of U.S. generally accepted accounting principles (GAAP) for which cost and complexity can be reduced without sacrificing the usefulness of the information provided to users should be evaluated and improved. While we support the proposal to eliminate the requirement to retroactively present the equity method of accounting when the equity method initially applies to a previously-held investment, we believe the proposal to eliminate the requirement to account for equity method basis differences does not achieve the Board's objectives of its simplification initiatives.

<u>Eliminating the Accounting for Basis Differences in Equity Method Investments</u>

We believe the proposal to eliminate the requirement to account for equity method basis differences may actually increase complexity in some cases and will reduce the usefulness of information provided to financial statement users. Eliminating the requirement to initially identify, and subsequently account for, the sources of the difference between the cost of an investment and the investor's share of the investee's equity would simplify the mechanics of equity method accounting. However, it is likely to increase the frequency of other-than-temporary impairment of equity method investments. Other-than-temporary impairment is arguably a more costly and complex aspect of equity method accounting than accounting for basis differences.

When an investor pays an amount in excess of its share of the investee's equity, effectively the proposal would treat the entire excess as equity method goodwill. However, when some or all of that excess relates to assets of the investee other than goodwill (which is usually the case), the investment account is likely to increase each period without any periodic recognition of the premium the investor paid for its share of the investee's equity, even when the underlying character of that premium is known. This distorts the measurement of the investor's periodic return from its investment. It also puts added pressure on the other-than-temporary impairment requirements and appears to be inconsistent with the FASB's current technical project on reducing the cost and complexity of the subsequent accounting for goodwill for public business entities and not-for-profit entities.

We also believe the proposal reduces the usefulness of information provided to financial statement users. The proposal would result in a new hybrid measurement attribute, for which there is no existing conceptual basis, that is unlike either consolidation or the cost method and that we believe is difficult to explain and understand. Although the Board has indicated that the proposal would move the equity method away from the concept of "one-line" consolidation, it is unclear what the conceptual basis is for the proposed new equity method. It is unclear why the portion of the investment related to the investor's share of the investee's underlying financial statement carrying amounts would be accounted for consistent with a "one-line" consolidation but the premium (basis difference) would not.

This hybrid measurement reduces the comparability of the financial performance across equity method investors in the same investee because those investors will not be periodically accounting for their respective purchase premiums as the profits generated by the underlying source of those premiums are recognized. The cost associated with those purchase premiums instead will be recognized at different points in time either as other-than-temporary impairment or a reduced gain (or increased loss) on sale. We believe the hybrid measurement basis and the artificial volatility in the earnings reported by equity method investors due to impairments will be confusing to users. Appendix II to this letter illustrates some examples of these unusual outcomes for the Board's consideration.

We believe it would be most appropriate for the FASB to retain the current accounting for equity method basis differences. If the current equity method is retained, we believe modest changes could be made to simplify application of the equity method by clarifying or emphasizing that, depending on the facts and circumstances, basis differences may be accounted for based on the primary or predominant sources of the difference or on a composite basis which may be evaluated based on the predominant assets and liabilities of the investee. In that regard, we do not agree with the Board's assertion in paragraph BC6 of the proposed ASU that such changes would not reduce complexity in financial reporting.

We also believe it would be more appropriate to eliminate the equity method of accounting altogether and replace it with fair value measurement than to create the hybrid measurement attribute in the proposed ASU.

Overall Plan to Address Complexity in Accounting Standards

Consistent with our past comments on the Board's simplification projects, while we support the Board's efforts to address unnecessary complexity in accounting standards through its narrow-scope projects within the simplification initiative, we believe that there are significant instances of complexity in accounting standards and financial reporting that transcend the scope of narrow projects intended to simplify specific provisions within existing standards. In addition to the narrow simplification initiatives, we believe the Board should develop a broader overall plan to address systemic causes of complexity within accounting standards and financial reporting. That plan should result in developing a framework that specifies how the Board will identify, evaluate, and prevent or mitigate potential complexity on an ongoing basis as an integral aspect of its standard-setting activities. The Board also should develop plans to address more significant areas of complexity in existing standards beyond the scope of the narrow projects within the simplification initiative. The narrow projects within the simplification initiative appropriately address concerns about complexity from the perspective of applying a specific provision of a standard. In addition to those projects, we believe an overall framework on complexity, subject to due process, should consider and address cost and complexity based on the potential effects on the overall standard-setting process and financial reporting system, including complexity for financial statement users.

* * * * *

We look forward to working with the Board as it continues to explore additional opportunities for change as part of the simplification initiative. Our responses to the Board's specific questions and our other observations on the proposed Accounting Standards Update are included in Appendix I. We also have included in Appendix II for the Board's consideration, examples to illustrate some of the unusual results the proposed ASU may produce. If you have any questions about our comments or wish to discuss any of the matters addressed herein, please contact Mark Bielstein at (212) 909-5419, Kimber Bascom at (212) 909-5664, or Angela Storm at (212) 909-5488.

Sincerely,

KPMG LLP

KPMG, LLP

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Appendix I – Responses to Questions

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?*

No. We believe the proposal to eliminate the requirement to account for equity method basis differences may increase complexity and would reduce the usefulness of information provided to financial statement users. Although the proposal may simplify the mechanics of equity method accounting, it would increase the frequency of arguably more complex other-than-temporary impairments and result in a new hybrid measurement attribute for which there is no existing conceptual basis. Specifically:

a) Eliminating the accounting for basis differences is likely to increase the frequency of other-than-temporary impairments of equity method investments. For example, when the investor paid a premium at acquisition and the investee has earnings, the investor's investment account reported in the statement of financial position would grow more quickly under the proposed ASU because there is no subsequent accounting for the premium paid (see Examples 2 and 3 to Appendix II). These other-than-temporary impairments create volatility in the statement of operations that otherwise would not have existed had the equity method of accounting remained unchanged.

b) Different investors with the same ownership percentage in the investee would recognize the same amount of equity in earnings of the investee under the proposed ASU even if those investors paid drastically different amounts for those investments. This result seems to distort the investors' financial performance.

c) Equity method investors who use the cumulative earnings approach to classify distributions received from their investees in the statement of cash flows would present more distributions received as cash flows from operating activities under the proposed ASU than they do under current GAAP because equity method investors would more frequently conclude under the proposed ASU that the cumulative distributions received from investees do not exceed the cumulative equity in earnings recognized by investors when such equity in earnings are not adjusted for premiums paid by investors at acquisition. This result seems to further distort the investors' financial performance.

d) The proposed ASU would produce unexplainable financial results when comparing an equity method investor's share of the investee's earnings to the amount presented in a parent company's consolidation of the investee (i.e., the amount attributable to the noncontrolling interest of the equity method investor). Further, an investor accounting for an investee under the equity method may, in some situations, report higher earnings from the investee than an investor who controls and consolidates that same investee (see Example 1 to Appendix II). While some differences already exist in narrow fact patterns when comparing consolidation and equity method accounting, this difference would be more significant and likely will affect virtually all equity method investments under the proposed ASU.

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e) An equity method investor using the recast-financial-statements approach when applying the hypothetical liquidation at book value (HLBV) method (as illustrated in Proposed Statement of Position, *Accounting for Investors' Interests in Unconsolidated Real Estate Investments* (Proposed SOP)) for determining its share of the investee's earnings or losses currently may determine its equity in earnings by recasting the investee's financial statements (from initial investment forward) as if the investee had applied push down accounting. By computing the change in the investor's share of net assets on a periodic basis AFTER recasting the investee financial statements, the investor naturally accounts for its basis difference. Under the proposal, all investors using HLBV will be required to move to applying only the first component of the two component approach (i.e., compute the equity in earnings based only on changes in the investee's financial statements with no recast) to avoid the subsequent accounting for the basis difference. Transition to the proposed ASU may be cumbersome for these investors because they will need to recast prior periods to get a beginning balance of their unadjusted share of the investee's net assets (without the basis difference) in order to compute future changes in that balance exclusive of basis differences. We understand the recast-financial-statements approach is commonly used in practice and is particularly useful in situations where the two-component approach may not be appropriate due to its inherent limitations as described in paragraph 34 of the Proposed SOP.

f) Equity method investors are required to account for a share issuance to other investors by an investee as if the investor had sold a proportionate share of its investment. Accordingly, gain or loss (commonly referred to as dilution gain or loss) is recognized in earnings and generally is measured as the difference between the investor's post-dilution share of the investee's net assets and its pre-dilution share, adjusted for the proportionate share of its basis difference. While the Board's intent relative to dilution transactions is unclear, even if the amendments to the standard are finalized as proposed, investors may still need to adjust their dilution gains or losses for a portion of any excess cost over their share of the investee's net assets in order to properly reduce the gain or increase the loss because that excess is an integral part of the carrying value of the investment. The Board should clarify its intent regarding dilution transactions and evaluate whether it impacts its initial decisions reflected in the proposed ASU.

g) Because the proposal requires the equity method investor's equity in earnings to be entirely dependent on the investee's accounting, the equity method investor's share of earnings of the investee may differ solely as a result of whether the investee elects to apply pushdown accounting upon a change in control (see Example 1 to Appendix II).

Appendix II to this letter illustrates some of these unusual outcomes for the Board's consideration.

We believe it would be most appropriate for the FASB to retain the current accounting for equity method basis differences. If the current equity method is retained, we believe modest changes could be made to simplify application of the equity method by clarifying or emphasizing that, depending on the facts and circumstances, basis differences may be accounted for based on the primary or predominant sources of the difference or on a composite basis which may be evaluated based on the predominant assets and liabilities of the investee. In that regard, we do not agree with the Board's assertion in paragraph BC6 of the proposed ASU that such changes would not reduce complexity in financial reporting.

We also believe it would be more appropriate to eliminate the equity method of accounting altogether and replace it with fair value measurement than to create the hybrid measurement attribute in the proposed ASU.

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 believe if the Board proceeds with the current proposal to eliminate the accounting for equity method basis differences, it should also eliminate the accounting for capitalized interest for equity method investments as it will be confusing to continue to amortize some, but not all, basis differences.

In addition, whatever the outcome of the proposed ASU, the Board should consider revisiting the accounting for capitalization of interest more broadly (i.e., not just for equity method investments), as it seems inconsistent with the accounting for other holding costs (e.g., the accounting for rental costs incurred during a construction period).

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?*

Generally we believe changes in accounting should be applied retrospectively to provide comparability for financial statement users. However, because application of the proposed amendments would result in information that we believe would make it more difficult to evaluate the overall financial performance of an equity method investment (as described in our response to Question 1), we do not see any benefit from retrospective application for the guidance in the proposed ASU.

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 proposal to eliminate the current requirement 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 the current requirement is confusing for users as the equity method of accounting is being retroactively reflected in periods in which the investor did not have significant influence over the investee. Eliminating this requirement also would align more closely the accounting for newly qualifying equity method investments with the accounting for newly consolidated entities under ASC Topic 810, *Consolidation.*

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 support the proposed transition to eliminate the requirement to retroactively adopt the equity method of accounting. We agree that the cost of "undoing" the equity method for prior increase-in-ownership transactions outweighs the benefit to the users of the financial statements. We also do not believe retrospective application in this instance increases comparability as increase-in-ownership transactions are not recurring.

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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?*

Because the proposed ASU would eliminate existing accounting requirements and simply require entities to stop some of their current bookkeeping, we do not believe initial adoption would require significant time or that entities other than public business entities would need more time than public business entities.

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?*

As described in our letter and response to Question 1, we do not believe the Board's proposal to eliminate the accounting for equity method basis differences would reduce overall cost and complexity or maintain or improve the usefulness of the information provided to users of financial statements.However, we believe the Board's proposal to eliminate the requirement to retroactively apply the equity method upon an increase in ownership interest is an improvement that would meet the objective of the simplification initiative.

Miscellaneous

- It is not clear to us why the Board is proposing to entirely delete the following sentence from paragraph 323-10-35-32A:

> However, an equity method investor shall recognize its share of any impairment charge recorded by an investee in accordance with the guidance in paragraphs 323-10-35-13 and 323-10-45-1 and consider the effect, if any, of the impairment on the investor's basis difference in the assets giving rise to the investee's impairment charge.

While the proposal is to supersede paragraph 323-10-35-13 and eliminate the accounting for the basis difference, the concepts in this paragraph remain relevant. We believe investors will still need to include their share of an investee's impairment charge in their equity in earnings and that impairment charge is still relevant in possibly triggering an impairment analysis on the equity method investment even if the investor is not separately accounting for the basis difference.

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Appendix II – Illustrations

Example 1: Basis Difference

Assume the following facts:

- Company A acquires a 49% ownership interest in Entity B on 1/1/2015 for $1,470,000.
- Company A accounts for its investment in Entity B under the equity method.
- Entity B is a manufacturing company and its assets are entirely plant and integral equipment with a combined fair value of $3,000,000 and carrying amount of $1,000,000 at 1/1/2015. The plant and integral equipment have a remaining useful life of 20 years, which is the same as the remaining economic life (i.e., the estimated salvage value is $0).
- Entity B reports net income of $500,000 for the year ended 12/31/2015, comprised of $650,000 of revenue, $100,000 of expenses other than depreciation, and $50,000 of depreciation expense.
- There are no distributions made by Entity B or intra-entity transactions during 2015.

Scenario 1 – Under Current GAAP

Company A records its initial investment in Entity B for $1,470,000 at 1/1/2015.

Company A records equity in earnings in Entity B of $196,000 for the year ended 12/31/2015, calculated as follows.

- Share in Entity B's earnings of $245,000 ($500,000 × 49%), and
- Adjustment for the basis difference in the amount of $(49,000) ($2,000,000 × 49% ownership interest ÷ 20 years).

Company A's ending investment balance in Entity B on 12/31/2015 is $1,666,000.

Scenario 2 – Under Proposed ASU

Company A records its initial investment in Entity B for $1,470,000 at 1/1/2015.

Company A records equity in earnings in Entity B of $245,000 for the year ended 12/31/2015.

Company A's ending investment balance in Entity B at 12/31/2015 is $1,715,000.

Under the proposed ASU, Company A's ending investment balance and equity in earnings in Entity B would be higher than those reported under Scenario 1.

Scenario 3 – Consolidation versus Equity Method

Assume the same facts as in Scenario 1. In addition to Company A acquiring a 49% ownership interest in Entity B, Company C acquires the remaining 51% equity interest at the same date for $1,530,000 (control premium ignored for purposes of illustration). Entity B elects not to apply pushdown accounting.

Because Company C has a controlling financial interest in the investee, it consolidates Entity B. In its consolidated financial statements, Company C:

- Records the plant and equipment for $3,000,000 as of 1/1/2015 and depreciation expense of $150,000 for the year ended 12/31/2015, resulting in an ending plant and equipment balance of $2,850,000 at 12/31/2015.
- Records $650,000 of revenue, $100,000 of expenses other than depreciation, and $150,000 of depreciation expense, resulting in net earnings from Entity B of $400,000.
- Company C reports net income attributable to the noncontrolling shareholders of Entity B of $196,000 ($400,000 × 49%) and net income attributable to Company C of $204,000 ($400,000 × 51%).

Example 1: Basis Difference

Under Scenario 1 (current GAAP), Company A's equity in earnings in Entity B of $196,000 is consistent with the amount Company C attributes to it in its consolidated financial statements as the noncontrolling shareholder.

Under Scenario 2 (proposed ASU), Company A's equity in earnings in Entity B of $245,000 is not consistent with the amount Company C attributes to it in its consolidated financial statements as the noncontrolling shareholder ($196,000). Additionally, Company A's reported equity in earnings in Entity B ($245,000) actually *exceeds* the earnings attributable to Company C ($204,000) even though Company C's level of ownership in Entity B (51%) is greater than Company A's (49%).

Scenario 4 – Election to Apply Pushdown Accounting

Assume the same facts as in Scenario 3, except that Entity B elects to apply pushdown accounting.

Under the proposed ASU, Company A's equity in earnings in Entity B for the year ended 12/31/2015 is $196,000 (net earnings after push down from Entity B of $400,000 × 49%).

As illustrated in Scenario 2, had Entity B not applied push down accounting, Company A's equity in earnings in Entity B would have been $245,000. Company A's equity in earnings varies solely because its investee has made an optional election to apply push down accounting.

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Example 2: Basis Difference, Other-Than-Temporary Impairment Considerations

Assume the following facts:

- Company A, Company B and Company C acquire 100% of Manufacturing Co. on 1/1/2015 for $3,000,000 (each pay $1,000,000 for a 33⅓% interest in Manufacturing Co.).
- Company A, Company B and Company C account for their investment in Manufacturing Co. under the equity method.
- Manufacturing Co. and its assets are entirely plant and integral equipment with a combined fair value of $3,000,000 and carrying amount of $1,000,000 at 1/1/2015. The plant and integral equipment have a remaining useful life of 20 years, which is the same as the remaining economic life (i.e., there is no salvage value).
- Cash, inventory, accounts receivable and accounts payable balances are all deemed to be zero at each fiscal year end (i.e. everything produced in a given year is sold and collected, vendor invoices paid and remaining cash distributed to the equity owners within the same year).
- Manufacturing Co. reports the same net income of $150,000 in its annual financial statements for the following 20 years, comprised of $300,000 of revenue, $100,000 of expenses other than depreciation, and $50,000 of depreciation expense.

Scenario 1 – Under Current GAAP

The following represents a summary of the equity method of accounting by Company A, Company B and Company C under current GAAP. Each company calculates the basis difference as $666,667 ($2,000,000 × 33⅓%), which they will amortize over the estimated useful life of the plant and integral equipment of 20 years.

Year	Investment in Equity Method Investee Beginning balance	Share in Equity Earnings (Net Income of $150,000 × 33⅓%)	Distributions ([Revenue $300,000 - Expenses $100,000] × 33⅓%)	Basis Difference Accounting Entry (Amortization over 20 years)	Investment in Equity Method Investee Ending Balance
2015	1,000,000	50,000	(66,667)	(33,333)	950,000
2016	950,000	50,000	(66,667)	(33,333)	900,000
2017	900,000	50,000	(66,667)	(33,333)	850,000
2018	850,000	50,000	(66,667)	(33,333)	800,000
2019	800,000	50,000	(66,667)	(33,333)	750,000
2020	750,000	50,000	(66,667)	(33,333)	700,000
2021	700,000	50,000	(66,667)	(33,333)	650,000
2022	650,000	50,000	(66,667)	(33,333)	600,000
2023	600,000	50,000	(66,667)	(33,333)	550,000
2024	550,000	50,000	(66,667)	(33,333)	500,000
2025	500,000	50,000	(66,667)	(33,333)	450,000
2026	450,000	50,000	(66,667)	(33,333)	400,000
2027	400,000	50,000	(66,667)	(33,333)	350,000
2028	350,000	50,000	(66,667)	(33,333)	300,000
2029	300,000	50,000	(66,667)	(33,333)	250,000
2030	250,000	50,000	(66,667)	(33,333)	200,000
2031	200,000	50,000	(66,667)	(33,333)	150,000
2032	150,000	50,000	(66,667)	(33,333)	100,000
2033	100,000	50,000	(66,667)	(33,333)	50,000
2034	50,000	50,000	(66,667)	(33,333)	-

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Example 2: Basis Difference, Other-Than-Temporary Impairment Considerations

Under current GAAP, Company A, Company B and Company C's ending investment balance in Manufacturing Co. at the end of the 20-year investment period is $0, consistent with the fact that Manufacturing Co.'s assets have no salvage value.

Scenario 2 – Under Proposed ASU

The following represents a summary of the equity method of accounting by Company A, Company B and Company C under the proposed ASU.

Year	Investment in Equity Method Investee Beginning balance	Share in Equity Earnings (Net Income of $150,000 × 33⅓%)	Distributions ([Revenue $300,000 - Expenses $100,000] × 33⅓%)	Basis Difference Accounting Entry (N/A)	Investment in Equity Method Investee Ending Balance
2015	1,000,000	50,000	(66,667)	-	983,333
2016	983,333	50,000	(66,667)	-	966,667
2017	966,667	50,000	(66,667)	-	950,000
2018	950,000	50,000	(66,667)	-	933,333
2019	933,333	50,000	(66,667)	-	916,667
2020	916,667	50,000	(66,667)	-	900,000
2021	900,000	50,000	(66,667)	-	883,333
2022	883,333	50,000	(66,667)	-	866,667
2023	866,667	50,000	(66,667)	-	850,000
2024	850,000	50,000	(66,667)	-	833,333
2025	833,333	50,000	(66,667)	-	816,667
2026	816,667	50,000	(66,667)	-	800,000
2027	800,000	50,000	(66,667)	-	783,333
2028	783,333	50,000	(66,667)	-	766,667
2029	766,667	50,000	(66,667)	-	750,000
2030	750,000	50,000	(66,667)	-	733,333
2031	733,333	50,000	(66,667)	-	716,667
2032	716,667	50,000	(66,667)	-	700,000
2033	700,000	50,000	(66,667)	-	683,333
2034	683,333	50,000	(66,667)	-	666,667

- Company A, Company B and Company C's ending investment balance in Manufacturing Co. at the end of the 20-year investment period of $666,667 represents the premium paid at acquisition by each company (i.e., the basis difference calculated at acquisition in Scenario 1).
- Because the plant and equipment have no salvage value after the 20 year investment period, Company A, Company B and Company C would need to recognize other-than-temporary impairments on their investment in Manufacturing Co at some point during the investment period. Without further guidance, Company A, Company B and Company C could potentially recognize other-than-temporary impairments at different times and at different amounts, even though they hold the same investment.
- Eliminating the concept of basis difference would create artificial volatility in the statement of operations. Company A, Company B and Company C would report higher equity in earnings from Manufacturing Co. as compared to Scenario 1. However, the elimination of the accounting for the basis difference in Scenario 2 would force Company A, Company B and Company C to record other-than-temporary impairments that they

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Example 2: Basis Difference, Other-Than-Temporary Impairment Considerations

presumably otherwise would not need to record had the accounting for equity method investments not been changed.

Example 3: Basis Difference, Immediate Sale of Underlying Asset Subsequent to Initial Equity Investment

Assume the following facts:

- Company A acquires a 33⅓% ownership interest in Entity B on 1/1/2015 for $2,000,000.
- Company A accounts for its investment in Entity B under the equity method.
- Entity B is a real estate company that owns three real estate properties at 1/1/2015. There are no other assets at the date of acquisition. Property 1 has a fair value of $4,000,000 and carrying amount of $1,000,000 at 1/1/2015. Properties 2 and 3 each have a fair value and carrying amount of $1,000,000 at 1/1/2015.
- On 1/2/2015, Entity B sells Property 1 for $4,000,000 and recognizes a gain on sale of real estate of $3,000,000 (selling and other costs are immaterial).
- Entity B distributes the proceeds from the sale of Property 1 to its shareholders.

Scenario 1 – Under Current GAAP

Company A records its initial investment in Entity B for $2,000,000 at 1/1/2015.

Company A determines its basis difference in Entity B at the date of acquisition is solely related to Property 1 and amounts to $1,000,000 ($3,000,000 × 33⅓%).

Company A records its share of earnings in Entity B as follows (assuming the sale of Property 1 is the only transaction during the period, and ignoring depreciation expense for Properties 2 and 3).

- Share in Entity B's earnings of $1,000,000 ($3,000,000 gain on sale × 33⅓%), and
- Adjustment for the write off of the basis difference associated with Property 1 in the amount of $1,000,000.

Accordingly, Company A reports equity in earnings of $0 for the period.

Company A reduces its investment balance in Entity B by $1,333,000 for the distribution received from Entity B.

Company A's ending investment balance in Entity B at the end of the reporting period is $667,000, consistent with its share of the fair value of the remaining underlying assets in Entity B at the date of acquisition.

Scenario 2 – Under Proposed ASU

Company A records its initial investment in Entity B for $2,000,000 at 1/1/2015.

Company A records its share of earnings in Entity B of $1,000,000 ($3,000,000 gain on sale × 33⅓%).

Company A reduces its investment balance in Entity B by $1,333,000 for the distribution received from Entity B.

Company A's ending investment balance in Entity B at the end of the reporting period of $1,667,000 still reflects the premium paid at the date of acquisition related specifically to Property 1 even though the property was sold by Entity B.

Company A likely would need to record other-than-temporary impairment of $1,000,000 on its equity investment in Entity B. While the charge may be recognized in 2015 in this scenario, the timing of other-than-temporary impairment across all investors in Entity B may differ due to the judgmental nature of the other-than-temporary analysis.