Virginia Society of Certified Public Accountants

August 4, 2015

Technical Director
File Reference No. 2015-280
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Submitted via email to director@fasb.org

Re: ***Proposed Accounting Standards Update: Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Equity Method of Accounting***

Dear Technical Director:

The Virginia Society of CPAs (VSCPA) Accounting and Auditing Advisory Committee has reviewed the proposed Exposure Draft (the ED), *Investments — Equity Method and Joint Ventures (Topic 323): Simplifying the Equity Method of Accounting,* issued by the Financial Accounting Standards Board (the Board). The VSCPA is a leading professional association dedicated to enhancing the success of all CPAs and their profession by communicating information and vision, promoting professionalism, and advocating members' interests. VSCPA membership consists of more than 11,000 individual members who actively work in public accounting, private industry, government and education. We acknowledge that the Board has issued the ED in an effort to reduce the complexity associated with accounting for equity method investments under Topic 323. The VSCPA appreciates the work the Board has undertaken on this effort and the opportunity to respond to the ED.

The VSCPA offers the following comments related to the "Questions for Respondents" section of the ED:

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?

We support the initiative to revise the accounting for basis differences associated with equity method investments due to the cost and complexity of obtaining the necessary information to perform the required assessments and accounting on an individual asset-liability basis. However, as opposed to completely eliminating the requirement to separately account for basis differences associated with equity method investments, we believe that the entire basis difference should be amortized on a straight-line basis (or otherwise derecognized) through equity method earnings. Amortization of basis differences is necessary to prevent inflation of an entity's investment balance and misrepresentation of reported earnings and returns and to ensure comparability between entities with similar investments.

We believe basis differences should be amortized over a period not greater than 10 years, unless the basis differences predominantly relate to a single asset for which a different period is considered more appropriate and supportable. The use of a 10-year amortization period might be considered an arbitrary period, but represents a practical solution and is consistent with recent Board research on the topic.

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 proposal to eliminate the amortization of interest capitalized on equity method investments over the lives of the associated assets and believe that it should be amortized in a manner consistent with our discussion in Question 1. If the Board determines that, as a whole, accounting for basis differences associated with equity method investments should be eliminated, we believe that amortization of interest capitalized on equity method investments should also be eliminated as it would create inconsistency and confusion to amortize select types of basis differences.

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 agree with modified prospective application of the amended guidance related to accounting for basis differences associated with equity method investments. A modified prospective transition method, consistent with the objective of the Simplification Initiative, would reduce accounting cost and complexity without reducing the usefulness of the financial information to the users. However, if revised in a manner consistent with our discussion in Question 1, supplemental transition guidance should be provided with respect to the treatment of basis differences on equity method investments existing as of the date of adoption. The amortization period should not exceed 10 years.

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. The nature of an investor’s relationship with an investee is different in periods in which the investor did not have significant influence over the investee and is consistent with the application of different accounting principles in each circumstance. In addition, eliminating this requirement should reduce unnecessary accounting complexity and costs as investors often do not readily have access to the requisite information to apply retroactively the equity method of accounting.

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 with the prospective application of eliminating the requirement to retroactively adopt the equity method of accounting. In our experience, increases in level of ownership interest in an investment requiring application of a different accounting method do not frequently occur; therefore, retrospective application would not provide a significant benefit to users of financial statements relative to the expected effort and cost.

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?

Entities should be provided two years (more than one annual reporting cycle) from issuance of the Update to adopt the amendments in this proposal. Early adoption should be permitted. Consistent with the objective of the Simplification Initiative, the proposed amendments should reduce the cost and complexity of existing accounting requirements; therefore, the time needed to adopt the proposed amendments should not be substantially dissimilar for both public business entities and entities other 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?

We believe that the proposed amendments, if revised consistent with our discussion in Question 1, meet the objective of the Simplification Initiative.

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Again, the VSCPA appreciates the opportunity to respond to the ED. Please direct any questions or concerns to VSCPA Vice President of Advocacy Emily Walker at ewalker@vscpa.com or (804) 612-9428.

Sincerely,

Charles M. Valadez, CPA, CGMA
Chair

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