

Technical Director

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Cf. Comment on Proposed Accounting Standards Update : Investments -- Equity Securities (Topic 321), Investments -- Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815); Clarifying the Interactions between Topic 321, Topic 323, and Topic 815

To the Technical Director :

This commenter has read the proposed Accounting Standards Update issued on July 30, 2019 on Topic 321, Equity Securities; Topic 323, Investments – Equity Method and Joint Ventures; and Topic 815, Derivatives and Hedging including its clarification on interactions between these topics. This commenter appreciates the opportunity to submit a narrative on these matters, and given the scope of the various topics involved and their interactions, has made attempts to allow for usefulness of comments as submitted versus the lesser utility of an attempt make an all – encompassing examination, analysis and conclusion of equity accounting and fair value accounting altogether as it relates to investments, joint ventures, derivatives and related topics. It has been known for some time, for instance, the fair value option is used frequently for receivables and short – term investments, most financial instruments held by any business, as an election for example, and this narrative, again, will assume for better or worse that knowing the details of these and related accounting treatments again in view of enhancing qualities in accounting are a requirement in a review of this writing. The emphasis of this accounting standards update is measurement overall and does not call for an illustration of the workings of equity method transactions nor fair value transactions in toto, nor of the totality of the economic construction of what are very worthwhile transactions and activities, and related details concerning financial instruments.

Question 1: Should an entity consider observable transactions that would require it to either apply or discontinue the equity method of accounting for the purposes of applying the measurement alternative under Topic 321 immediately before or upon discontinuing the equity method? Please explain why or why not.

Topic 321 presents an alternative of investment value measurement as of the date of the transaction, immediately after adopting the fair value method in a decrease in ownership level, or measurement immediately before the transaction in an increase in ownership level. Certainly, in transactions for cash, and where money rates and exchange rates are involved, and especially in denominations of volatile currency, the measurement date will be advantageous to one party or another in the investment exchange. In transactions involving financial instruments that change a level of ownership or degree of

influence that do not involve cash, the measurement date is less important given the presumably more stable carrying value of assets in an exchange. Where currency is involved and where value of the applicable money fluctuates, the transaction will affect financial segment reporting and unrealized gains and losses. This question is not only important in the case of volatile currencies internationally, but has to do with the unrealized gain or loss that is recorded in retained earnings and that is carried until the disposition of the financial instrument(s) at hand. There is also a role of applicable gains and losses in the event of financial instrument impairment(s), reclassification(s), and transfer(s.)

Question 2: Should an entity consider whether the underlying securities for certain forward contracts or purchased options would, individually or with existing investments, be accounted for under the equity method upon settlement of the forward contract or exercise of the purchased option for purposes of applying Topic 815? Please explain why or why not.

Equity method accounting for financial instruments including forward contracts or purchased options should be used iff the investor wishes to treat income and dividends according the rules of the equity method – income and gains of the investee are overall added to the value of investments as are dividends. For prospective revenue and income – generating investments, the equity method is preferable to the fair value method that allows for investee income to stay within the investee entity whereas dividends paid by the investee are an expense to the investee and add to the value of the financial instrument for the investor. While both these have advantages to increase the value of the investee, the fair value method can suffer from one or more pitfalls where, e.g., dividends exceed income and in this the fair value treatment does not always fulfill its promise of increased income, gains, and other value and prospective benefits to the investor.

Question 3: Are the amendments in the proposed Update operable? If not, please explain why you disagree and what changes, if any, should be made instead.

This accounting standards update appears to be operable and an effort to at least in theory adapting a close proxy of I.F.R.S. financial instrument accounting treatment to the U.S. GAAP. There is no real reason under the circumstances to do so with U.S. GAAP accounting treatment of financial instruments insofar as I.F.R.S. and its promoters might will this upon U.S. GAAP and with some very concerted and valid fair value arguments. However, the emphasis of I.F.R.S. before that of U.S. GAAP and its primacy of balance sheet accounting, and historical cost that includes asset basis stands in contrast to I.F.R.S. accounting and valuation treatments that are based on economic activities, even sectoral activities outside the overall purview of productive assets and capital. This commenter, per discretion of the F.A.S.B. considers the equity method extremely valuable in the way it conserves capital and this while the equity method of accounting is routinely, constructively and judiciously employed.

Question 4: The proposed amendments would apply to all entities. Would any of the proposed amendments require special consideration for entities other than public business entities? If so, which proposed amendment(s) would require special consideration and why?

Different entities have different stakeholders : partnerships, joint ventures, limited liability companies, stock companies and others all have different considerations, especially the ways in which equity method, or fair value options affect their tax and financial conditions. Often these are considered to be

equivalent, but they are routinely not even close. The most important paragraphs in these amendments have to do with the unrealized holding gains and losses and transaction gains and losses at disposition, amortized gains, and the fair value method can provoke losses in excess of investment basis. Operating income is prospective and good stakeholders will properly and responsibly husband ordinary revenues and gains using the proper methods and practices; then either recouping losses or disposing of the appropriate financial instruments altogether.

Question 5: Do you support the proposed transition method and transition disclosures when adopting the proposed amendments? If not, please explain why and what transition method and disclosures should be required instead.

This commenter agrees with the transition method, deadlines and early adoption rules per the discretion of the F.A.S.B. This agreement also includes the disclosure requirements for companies in compliance with the ASC topics as discussed.

Question 6: How much time would be needed to implement the proposed amendments? Do entities other than public business entities need additional time to apply the proposed amendments? Should early adoption be permitted?

This commenter knows the time to implement deadlines for adoption of the proposed amendments, including the separate outcomes of permission for early adoption, by public companies might be indeterminate. Also unknown, unless a consensus can be had on the subject, is the time non – public companies might take to adopt these proposed amendments.

By.

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