



The Association of
Accountants and
Financial Professionals
in Business

August 27, 2019

Mr. Shayne Kuhaneck, Acting Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2019-740, 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*

Dear Mr. Kuhaneck:

The Financial Reporting Committee (FRC or Committee) of the Institute of Management Accountants (IMA) is writing to share its views on the Financial Accounting Standards Board's (Board or FASB) Exposure Draft of the Proposed Accounting Standards Update (ASU), *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*.

The IMA is a global association representing over 130,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities, and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The Committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics, and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals, and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at www.imanet.org (About IMA, Advocacy, Financial Reporting Committee).

The Committee supports the proposed amendments that an entity should consider observable transactions that 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 applying or upon discontinuing the equity method. We believe this amendment is operable and achieves the objective of clarifying the interaction of the accounting for equity securities under Topic 321 and investments under the equity method of accounting in Topic 323.

With respect to the proposed amendments on scope considerations for forward contracts and purchased options on certain securities, some Committee members agree with the amendments, and the Committee agrees with the conclusion that the proposed amendments would not result in a change in practice for the acquirer's accounting for forward contracts to purchase a controlling financial interest in an acquiree. We recommend that the staff include this conclusion in the Codification versus in the Basis for Conclusions.

Some Committee members disagree with the proposed amendment and believe that it should not apply to forward purchase contracts to purchase securities under Topic 321 when the shares received in the



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purchase will be accounted for as an equity method investment under Topic 323. The Committee observes that the proposed amendments would require entities to record equity securities in these arrangements at fair value when a binding contract exists with any changes in fair value recorded in earnings through the settlement date, which may represent a change from current accounting for these types of arrangements when no initial investment exists. These members do not believe there is a basis to delineate between a forward purchase contract for a controlling interest in an entity as compared to a purchase contract to obtain significant influence, particularly because both are typically accounted for based on the consideration that is transferred.

As it relates to the proposed amendment to ASC 815-10-15-141A, the Committee understands that an entity could also elect to account for these types of securities at fair value in accordance with Topic 825, in which case this paragraph, as currently written, would not apply. As such, we suggest the following edit to paragraph 815-10-15-141A.

"For the purposes of applying paragraph 815-10-15-141(a) for forward contracts and purchased options, an entity shall not consider whether, upon the settlement of the forward contract or the exercise of the purchased option, individually or with existing investments, the underlying securities would be eligible to be accounted for under the equity method in accordance with Topic 323."

Finally, these amendments raise broader questions regarding the equity method of accounting under Topic 323, including how its concepts align with measurement guidance in other ASC Topics. In particular, the guidance in Topic 323 for the accounting for other long-term interests in the investee could be simplified and improved. The guidance in APB 18, which was carried forward in Topic 323 was written at a time when these other long-term interests were accounted for under different models than they are today. Many of these questions were discussed during the June 13, 2019 EITF meeting. However, consensus was not reached, and the issue was not included within this proposed ASU. We believe it may be beneficial for the Board to consider a project on Topic 323 more broadly.

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We would be pleased to discuss our comments with the FASB or its staff at your convenience.

Sincerely,

A handwritten signature in blue ink that reads "N. Schroeder".

Nancy J. Schroeder, CPA
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Institute of Management Accountants
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