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August 28, 2019

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

File Reference No. 2019-740

Dear Mr. Kuhaneck:

RSM US LLP is pleased to provide feedback on 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, a consensus of the Emerging Issues Task Force*. We appreciate the efforts the Financial Accounting Standards Board is putting forth to clarify the relevant accounting guidance, and we are generally supportive of the proposed amendments. Our responses to the specific questions raised in the proposed ASU follow.

Responses to Questions for Respondents

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.*

We believe it would be appropriate for equity securities that are accounted for under the measurement alternative to be adjusted to fair value if a transaction that results in the entity applying or discontinuing the equity method of accounting constitutes an observable price change in an orderly transaction for the identical or similar investment of the same issuer. Observable price changes in orderly transactions provide an indication of fair value, and we do not believe they should be ignored when an entity is transitioning to or from the measurement alternative. In addition, the proposed treatment is consistent with how equity securities that are not accounted for under the measurement alternative are remeasured upon initially applying or discontinuing the equity method of accounting.

We believe that consideration also should be given to extending this treatment to observable price changes in other orderly transactions that occur on the same day an entity initially applies or discontinues the equity method of accounting, but were not the transaction that caused the entity to apply or discontinue the equity method. While this may be an infrequent occurrence, it would be beneficial to indicate that observable price changes in orderly transactions that occur on the same day that the investor initially applies or discontinues the equity method should be considered, regardless of whether the transaction is the transaction that resulted in the application or discontinuance of the equity method. We recently encountered a situation that illustrates this as follows:

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Shayne Kuhaneck
Financial Accounting Standards Board
August 28, 2019
Page 2

Shares of one entity that did not have a readily determinable fair value were exchanged for shares of another entity that did not have a readily determinable fair value. As a consequence of this non-cash merger, an investor's ownership interest in an investee changed such that the investor discontinued the equity method of accounting. The merger did not result in an observable price change; however, on that same day, the investee also sold shares to new investors in an orderly transaction that did constitute an observable price change for the shares held by the investor. Absent guidance that directly addresses this, it appears the investor may need to know which occurred first (i.e., the merger or the sale of shares to new investors). If the merger occurred first and the investor elected the measurement alternative under ASC 321, it would adjust the carrying amount of its investment to fair value because of the observable price change associated with the sale of shares. Conversely, if the sale of shares occurred before the merger, presumably the entity would not adjust the carrying amount of its security to fair value since it would continue to apply the equity method until the merger occurred.

Given the complexities associated with determining which occurred first when two transactions occur on the same day and the illogical results that would result if you would dismiss a transaction solely due to the time of day it occurs, we suggest modifications be made to portions of certain paragraphs of the proposed ASU as follows (proposed additions are underlined, and proposed deletions are struck through):

323-10-35-33 (in part): *For purposes of applying paragraph 321-10-35-2 to the investor's previously held interest, if the investor identifies observable price changes in orderly transactions for an identical or a similar investment of the same issuer that occur on the same day that the investor initially is required to apply results in it applying Topic 323 (regardless of whether that transaction is the transaction that resulted in the application of the equity method), the entity shall remeasure its previously held interest at fair value immediately before applying Topic 323.*

323-10-35-36 (in part): *For purposes of applying paragraph 321-10-35-2 to the investor's retained investment, if the investor identifies observable price changes in orderly transactions for the identical or a similar investment of the same issuer that occur on the same day that the investor is required to discontinue that results in it discontinuing the equity method (regardless of whether that transaction is the transaction that resulted in the discontinuation of the equity method), the entity shall remeasure its retained investment at fair value immediately after discontinuing the equity method.*

321-10-30-1 (in part): *For purposes of applying paragraph 321-10-35-2 to the investor's retained investment, if the investor identifies observable price changes in orderly transactions for the identical or a similar investment of the same issuer that occur on the same day that the investor is required to discontinue that results in it discontinuing the equity method (regardless of whether that transaction is the transaction that resulted in the discontinuation of the equity method), the entity shall remeasure its retained investment at fair value immediately after it no longer applies the guidance in Topic 323.*

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.*

When applying Topic 815, we do not believe consideration should be given to whether the underlying securities would be accounted for under the equity method upon settlement of a forward contract or exercise of an option contract. We are in agreement with the proposed amendments, in part because

Shayne Kuhaneck
Financial Accounting Standards Board
August 28, 2019
Page 3

the determination of whether the underlying securities would be accounted for under the equity method could change during the period of time the forward or option contract is outstanding.

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.*

We believe the proposed amendments are operable.

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?*

We are not aware of any proposed amendments that require special consideration for entities that are not public business entities.

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.*

To improve comparability, we believe consideration should be given to permitting retrospective or modified retrospective application, and the disclosures expanded accordingly to quantify the impact of adoption.

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?*

We believe that early adoption as of the beginning of an interim or annual period should be permitted. We defer to reporting entities to comment on the amount of time needed to apply the proposed amendments.

We appreciate this opportunity to provide feedback on the proposed ASU and would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions regarding this letter to Rick Day at 563.888.4017 or Faye Miller at 410.246.9194.

Sincerely,

RSM US LLP

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