



GRANT THORNTON LLP
Grant Thornton Tower
171 N. Clark Street, Suite 200
Chicago, IL 60601-3370

D +1 312 856 0200
F +1 312 602 8105
S [linkd.in/grantthorntonus](https://www.linkedin.com/company/grantthorntonus)
twitter.com/grantthorntonus

August 29, 2019

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

Via Email to director@fasb.org

Reference No. 2019-740

Dear Mr. Kuhaneck:

Grant Thornton LLP appreciates the opportunity to comment on Proposed Accounting Standards Update, *Clarifying the Interactions between Topic 321, Topic 323, and Topic 815: a consensus of the Emerging Issues Task Force*.

In general, we agree that when accounting for equity securities without readily determinable fair values under the measurement alternative in Topic 321, an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting for purposes of applying the measurement alternative in accordance with Topic 321.

In addition, we agree that for purposes of applying paragraph 815-10-15-141(a) to nonderivative forward or option contracts to purchase equity securities, entities should not consider whether the underlying securities should be accounted for under the equity method in Topic 323 when settling a forward or exercising an option.

Our answers to selected questions for respondents follow.

We have included an appendix featuring suggested deletions and insertions to certain text in the proposed ASU for your consideration.



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?

We agree that an entity should consider observable transactions that would require it to either apply or discontinue the equity method of accounting for purposes of applying the measurement alternative under Topic 321 immediately before or upon discontinuing the equity method. To do otherwise would result in different accounting upon the application or discontinuance of the equity method for equity securities accounted for under the measurement alternative and for all other equity securities accounted for in accordance with ASC 321. In our view, that outcome would not be appropriate.

Applying the equity method

Under the existing guidance in paragraph 323-10-35-33, if an investment that was previously accounted for as an equity security subsequently qualifies for the equity method, the investor must add the cost of acquiring the additional interest in the investee (if any) to *the current basis of the investor's previously held interest*. We believe that the "current basis" of an equity security previously held when the equity method becomes applicable is that security's fair value, as determined in accordance with Topic 321. For equity securities accounted for under the measurement alternative, we believe the security's fair value should be determined after considering all qualifying observable transactions, including the transaction that causes the equity investment to be accounted for under the equity method. This approach therefore would align the accounting for equity securities accounted for under the measurement alternative with the accounting for all other equity securities accounted for in accordance with ASC 321.

Discontinuing the equity method

Paragraph 323-10-35-36 states that the carrying amount of the equity security, including any accrued equity-method earnings or losses through the date when the equity method is discontinued, shall be the initial basis of the equity security upon discontinuing the equity method. From the point of discontinuance forward, the equity security should be accounted for at fair value in accordance with Topic 321. In order to align the accounting for equity securities accounted for under the measurement alternative with the accounting for all other equity securities accounted for in accordance with ASC 321, we believe that an entity should consider observable transactions that require discontinuing the equity method of accounting.

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?



We do not believe an entity should 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 settling a forward contract or exercising a purchase option for purposes of applying Topic 815. In our view, distinguishing the accounting for these contracts (certain nonderivative forwards and purchased options to purchase equity securities) based on whether the investor would apply the equity method to the underlying equity securities when settling the forward or exercising the option raises several concerns.

First, an investor would be required to evaluate whether it should apply the equity method when either:

- *A forward is settled*, which would require the investor to assess whether it expects to have significant influence over the investee in the future.
- *A purchased option is exercised*, which would require the investor to make an assessment of whether it expects to have significant influence, and also when it might exercise the option.

These assessments would be difficult to support and audit.

Second, if an entity were to determine that it should apply the equity method to the underlying equity securities upon settling a forward or exercising a purchase option, excluding such forwards and purchased options from the accounting guidance in paragraph 815-10-15-141(a) means that there would be no accounting guidance to apply to these instruments. In practice today, many entities account for these instruments at cost. However, accounting for these instruments at cost appears contrary to the intent of the guidance in Topic 321.

Question 5: Do you support the proposed transition method and transition disclosures when adopting the proposed amendments?

Yes, we support the proposed transition method and transition disclosures.

We would be pleased to discuss our comments with you. If you have any questions, please contact Graham Dyer, Partner, 312.602.8107, Graham.Dyer@us.gt.com, or Rahul Gupta, Partner, 312.602.8084, Rahul.Gupta@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP



Appendix

ASC 321-10-35-33 [Excerpt]

The current basis of the investor's previously held interest in the investee accounted for under this Subtopic shall be remeasured in accordance with paragraph 321-10-35-1 or 321-10-35-2, as applicable, immediately before adopting the equity method of accounting.

ASC 321-10-35-36 [Excerpt]

Upon the discontinuance of the equity method, an investor shall remeasure the retained investment in equity securities accounted for under this Subtopic in accordance with paragraph 321-10-35-1 or 321-10-35-2, as applicable.

ASC 321-10-30-1 [Excerpt]

If an equity security no longer qualifies to be accounted for under the equity method (for example, due to a decrease in the level of ownership), the security's initial basis ~~for which subsequent changes in fair value are measured~~ shall be the previous carrying amount of the investment.

ASC 815-10-15-141

The guidance in the Certain Contracts on Debt and Equity Securities Subsections applies only to those forward contracts and purchased options having all of the following characteristics:

- a. The contract is entered into to purchase securities that will be accounted for under ~~either~~ Topic 320, ~~or~~ Topic 321, ~~or~~ Topic 323.
- b. The contract's terms require physical settlement of the contract by delivery of the securities.
- c. The contract is not a derivative instrument otherwise subject to this Subtopic.
- d. The contract, if a purchased option, has no intrinsic value at acquisition.

ASC 815-10-15-141A

[Delete in its entirety]



ASC 815-10-15-142

The guidance in the Certain Contracts on Debt and Equity Securities Subsections does not apply to contracts involving securities not within the scope of either Topic 320, or Topic 321, or Topic 323 ~~after considering the guidance in paragraph 815-10-15-141A.~~

ASC 321-10-15-6 [Excerpt]

~~Paragraph 815-10-15-141A provides guidance on applying the guidance in paragraph 815-10-15-141 to forward contracts and purchased options to purchase securities within the scope of Topic 321.~~

ASC 321-10-55-3 [Excerpt]

~~Paragraph 815-10-15-141A provides guidance on applying the guidance in paragraph 815-10-15-141 to forward contracts and purchased options to purchase securities within the scope of Topic 321.~~