



August 29, 2019

Technical Director, File Reference No. 2019-740
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Re: File Reference No. 2019-740 Exposure Draft – Investments- Equity Securities (Topic 321), Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) - Clarifying the Interactions between Topic 321, Topic 323, and Topic 815

We are writing on behalf of the Emerging Standards Committee (ESC) of the Kentucky Society of Certified Public Accountants (KyCPA). The KyCPA is the sole professional organization representing CPAs in the Commonwealth of Kentucky. Its 5,100 members are engaged in business communities throughout the Commonwealth and have a comprehensive grassroots view of the needs of businesses, ranging from large public companies to small owner-managed businesses. KyCPA's ESC consists of a group of KyCPA members organized to monitor the activities of accounting and auditing standard setters, with the objective of participating in the standards-setting process by providing thoughtful comment on developing issues.

Our comments for your consideration are as follows:

Overall comments - We agree with the FASB's efforts to reduce diversity in practice as related to equity securities, specifically under circumstances immediately before applying or upon discontinuing the equity method of accounting. We believe the guidance generally would be operable in practice; however, we have a comment specifically related to Question 1.

Question 1 – We agree an entity should 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 applying or upon discontinuing the equity method.

We wish to point out that the observable transaction that is contemporaneously occurring may not be at or representative of fair value for a variety of reasons. It is noted that the equity method investor, by definition, can exercise significant influence with the investee, and if the investee is the counterparty to the contemporaneous transaction, special care should be exercised to assess whether the observable transaction is representative of fair value. Proper accounting should be representative and faithful to the underlying economics occurring.

Further, we are familiar with transactions involving tax structured entities that exit its tax compliance period, necessitating a transaction with another party, in some cases under specified contractual arrangements. The observable transaction may involve unusual circumstances and sometimes intersect with a mission or purpose if involving a not for profit entity.

Accordingly, we suggest the Board clarify that the observable transaction may not be representative of fair value and the transaction should be accounted for based on the economic substance occurring.

Question 2 – We agree with the Board’s proposed accounting.

Question 3 – We agree the proposed ASU is operable, considering our comment in Question 1 above.

Question 6 – We suggest additional time for “bucket two” entities, consistent with the Board’s Proposed ASU on “Effective Dates”, as issued on August 15, 2019.

Thank you for your consideration.

Sincerely,

A handwritten signature in blue ink that reads "Glenn Bradley". The signature is written in a cursive, flowing style.

Glenn Bradley, CPA, Chair
On behalf of the Emerging Standards Committee
Kentucky Society of CPAs