

Alphabet

August 29, 2019

Sent via email (director@fasb.org)

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 a consensus of the Emerging Issues Task Force—a consensus of the FASB Emerging Issues Task Force

Dear Technical Director:

Alphabet Inc. (“Alphabet,” the “Company,” “we,” “us,” or “our”) appreciates the opportunity to provide feedback on the 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 a consensus of the Emerging Issues Task Force—a consensus of the FASB Emerging Issues Task Force (the “Proposal”, “Proposed ASU”), exposed for comment by the Financial Accounting Standards Board (the “Board”).

Alphabet is a collection of businesses, the largest of which is Google, and we generate revenues primarily by delivering relevant, cost-effective online advertising. It also includes non-Google businesses, collectively referred to as Other Bets, that use technology to try and solve big problems across many industries. We regularly invest in financial instruments whose accounting may fall within the scopes of various investment accounting Topics.

Proposed ASU

We commend the Board’s willingness to address the application of different models of accounting for equity investments.

We are supportive of the proposed amendments clarifying that for the purposes of applying the measurement alternative in accordance with Topic 321, an entity should consider observable transactions that require it to apply or discontinue the equity method of

accounting. Consistent with the Board's basis for conclusions, we believe that not doing so would be inconsistent with the measurement principle in accordance with Topic 321.

We also agree with the proposed prospective transition method and transition disclosures when adopting the proposed amendments.

Additional considerations

1. We would like to highlight situations where, as a result of subsequent observable transaction(s), an entity acquires a controlling financial interest in the investee in which it previously held equity interest, thus requiring application of the acquisition method of accounting under Topic 805 (as it would be the case in a step acquisition). Consistent with the proposed amendment, ASC 805-10-25-10 requires that the investor should remeasure its previously held interest in the investee immediately before applying the acquisition method of accounting as the acquirer. However, we recommend the Board clarify whether such remeasurement reflects a gain under Topic 321 or Topic 805. This distinction may impact the disclosure and presentation of the gain/loss.
2. Additionally, we note that while it was considered, the Proposal does not address the issue of appropriate sequencing of the allocation of the equity method investee's losses to the investor's other investments and remeasurements under the measurement alternative due to an observable transaction.

In our experience, situations do occur when (i) an investor holds additional investments in the equity method investee that qualify for the measurement alternative, and (ii) there are excess unallocated equity method losses.

In the absence of explicit guidance, we believe an appropriate approach is that the accumulated equity method losses that have not been allocated to an investor's investments in the investee (that is, accumulated investee losses in the memo account) should offset any unrealized gains resulting from remeasurement of the investment due to an observable transaction in accordance with Topic 321. Any subsequent increases in fair value (unrealized gains) should only be recognized for amounts in excess of cumulative unrecognized equity method losses. This treatment is consistent with the overall objective of the equity method guidance whereby gains resulting from equity pick up should only be recorded in earnings once they exceed losses not previously recognized (memo account losses).

However, there may be diversity in practice regarding how such transactions are accounted for and we recommend the Board specifically address the accounting treatment.

Thank you for the opportunity to respond. We would be pleased to discuss our comments at your convenience.

Kind regards,

A handwritten signature in black ink, appearing to read "G. Turschl". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Gabor Turschl
Director of Technical Accounting