July 28, 2015

Ms. Susan Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

RE: File Reference No. 2015-280

Dear Ms. Cosper:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the FASB's proposed Accounting Standards Update, *Investments-Equity Method and Joint Ventures (Topic 323): Simplifying the Equity Method of Accounting*. We agree that the current accounting for equity method investments is complex, and its benefits to users do not always justify the related costs. Therefore, we support the objective of simplifying the equity method of accounting.

The Board has proposed two simplifications in the exposure draft. We support the proposal to eliminate the requirement to retroactively adopt the equity method (when an existing investment first qualifies for the equity method) and believe this proposal meets the objective of the Simplification Initiative. However, we do not support the proposal to eliminate the accounting for basis differences. We believe this proposal would reduce the usefulness of financial reporting because it would not faithfully represent an investment's performance in relation to its underlying economics.

The Board indicates in the basis for conclusions that it is not troubled by moving the equity method away from what is referred to as "one-line consolidation." Given that the equity method and the concept of a one-line consolidation date back to the early 1970s, and the nature and variety of investments, financial reporting requirements, and user needs have since changed, we agree that the objective of the equity method should be revisited. However, abandoning one-line consolidation by eliminating the accounting for basis differences is a fundamental change that would disconnect the equity method from its foundational concept.

We believe that in many cases, the proposed simplification would not result in meaningful reporting of equity method investments. First, we believe the proposal would result in inflated assets and earnings, potentially misleading users, and precipitating frequent impairment assessments, which can be costly and complex. Second, the proposal would reduce comparability between entities with similar investments. For example, the financial statements of two identical investees, one that applies pushdown accounting and one that does not, would reflect different earnings for their investors. Third, the proposal would lead to gains or losses inconsistent with the economics of a transaction when an investee's assets are sold. For example, if an investee sells an asset that has appreciated significantly in value since it was acquired, the investor would recognize its proportionate share of the investee's related gains, even though some or all of the appreciated value may have been contemplated and paid for at the time of the investor's initial investment. In essence, we believe that the proposed simplification would not result in a reasonable and comparable reflection of an investment's underlying economics.

We believe that such a fundamental change requires additional outreach and study, including an assessment of 1) how equity method reporting meets users' needs relative to other methods, such as fair value or cost (less impairment), and 2) whether the objective of one-line consolidation remains appropriate under certain situations (for example, when a reporting entity enters into a joint venture or has majority ownership but does not consolidate the investee because of participating rights held by minority shareholders).

Recognizing that a broader reassessment is likely not within the scope of the Board's simplification agenda, and agreeing that there is benefit to an immediate simplification of the equity method guidance, we recommend an optional practical expedient that would preserve a reasonable linkage between the reported performance of the investment and the underlying economic conditions that existed at the date of the initial investment. We believe that the Board's objective of simplifying the equity method, while maintaining decision usefulness, could be achieved by either linking the accounting for the basis difference to a single asset (or a group of similar assets) that predominantly gives rise to the basis difference, or, where that is not the case or is unclear, amortizing the basis difference over a period of time, e.g., 10 years.

We proposed that when the basis difference can be attributed to a single asset, for example, a building, the basis difference should be amortized over the estimated useful life of the building. When the building is sold, the remaining basis difference would be derecognized to offset the investor's portion of the gain recognized by the investee. Likewise, if the predominant source of the basis difference was land, the basis difference should be treated as an indefinite-lived asset, and relieved when the land is sold. While we recognize that the Board considered but rejected this approach on the basis that it is complex, we believe this approach reduces significant complexity relative to today's guidance while maintaining the integrity of the equity method and providing more relevant information to users.

In some instances, the basis difference may not be attributable to a single asset, for example, because the difference relates to several dissimilar assets (e.g., inventory, fixed assets, and customer relationships), or because the difference relates to goodwill. We believe that in these cases, a reporting entity should amortize the difference over a default period, such as 10 years (the baseline amortization period in the private company goodwill alternative), consistent with the direction of the Board's separate goodwill accounting project, which is focused on reducing the cost and complexity of the subsequent accounting for goodwill.

Any simplified method of accounting raises the question of whether it should be a requirement or an option. We believe that the simplified method we are proposing should be an optional practical expedient and should be available for election at the initial accounting for an equity method investment. We believe a reporting entity that wants to continue to apply the current equity method for a particular investment should be allowed to do so when the current method reflects the investment's underlying economics (as if the investment was consolidated).

In summary, we support simplifying the equity method, but believe that the accounting for basis differences should be linked to an investee's underlying asset(s) in order to provide a more meaningful reflection of an investment's economic performance and maintain decision usefulness for users. We further believe that our proposed alternative simplification should be available as an optional practical expedient to the current equity method. In the longer-term, we believe the Board should add a project to its agenda to reassess the objective of the equity method more broadly.

Our detailed responses to the questions in the exposure draft are contained in the appendix to this letter. If you have any questions regarding our comments, please contact Patrick Durbin at (973) 236-5152 or Larry Dodyk at (973) 236-7213.

Very truly yours,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Appendix

Question 1: Should accounting for the basis difference of equity method investments as if the investment were a consolidated subsidiary be eliminated? Why or why not? Would amortization of the entire basis difference through equity method earnings be preferable? If so, what would be the suggested amortization period?

Although we support the objective of simplifying the equity method of accounting, we do not support eliminating the accounting for basis differences. We believe doing so would result in financial reporting that does not faithfully represent an investment's performance in relation to its underlying economics for three primary reasons.

First, in many cases, the proposal would have the effect of inflating a reporting entity's investment asset balance and earnings. The basis difference generally represents the premium paid over the book value of an investment acquired. This premium is attributable to the earnings potential of the investee's underlying assets. As the underlying assets acquired are being used (or sold), the premium paid for such assets should be amortized (or derecognized). If the basis difference is not amortized (or otherwise derecognized), the resulting financial reporting would effectively ignore what the reporting entity paid for the investment, and, instead, future earnings would be based on an unrelated party's (i.e., the investee's) basis in the same investment. In many cases this would result in inflated earnings and higher investment returns being reported by the entity than its actual economic return.

Further, the proposed approach would likely lead to more frequent impairment assessments of investment balances under the "other-than-temporary-impairment" guidance, which is highly judgmental and challenging to apply. As a result, there would be no net benefit for reporting entities as the time and effort to account for basis differences, which are primarily incurred once at the time of investment, would be replaced by ongoing impairment assessments at each reporting period while the investment is held. Also, the recognition of an impairment charge in a subsequent period due to the recognition of inflated earnings in earlier periods will likely confuse users and may not necessarily arise from or occur contemporaneous with any actual change in economic circumstances underlying the investment.

Second, the proposal would have the effect of reducing comparability between reporting entities with similar investments, because the reporting entity's earnings would ignore its cost of the investment and be calculated merely based on the reported earnings of the investee. Reported earnings could be significantly different for two otherwise identical investees due to the application of different accounting policies. For example, one investee may elect pushdown accounting. All else being equal, a reporting entity that invests in an investee that recently applied pushdown accounting with stepped up asset values and additional depreciation/amortization would recognize lower earnings from its equity method investment than a reporting entity that invests in an investee that did not apply pushdown accounting.

Third, the proposal would have the effect of overstating gains recognized by investors when an investee sells an appreciated asset, because the basis difference attributable to the appreciated asset would not be relieved to reduce the investor's portion of the investee's gain. For example, land purchased by an investee many years ago may have appreciated in value significantly prior to a reporting entity investing in the investee. If the investee sells the land for a significant gain, the book gain recognized by the investee would likely be much greater than the true economic gain for the investor. That inflated gain, recognized in the income statement of the investor, would also have the consequence, all else being equal, of characterizing a relatively greater portion of future cash distributions from the investee as operating in the statement of cash flows.

The proposed method of treating the basis difference as, effectively, an indefinite-lived difference, in all cases, therefore has no conceptual merit. The carrying amount of an "equity method" investment, calculated as the investor's cost plus its share of the investee's earnings, would not represent the fair value of the investment, the cost of the investment, or a "one-line consolidation" of the investment. Rather, it would represent the financial position and earnings of another, unrelated party's basis, from a period before the reporting entity's investment, which may or may not approximate the reporting entity's basis in the investee.

As proposed in our cover letter, we believe that the Board's objective of simplifying the equity method while maintaining decision usefulness could be achieved by linking the accounting for the basis difference to a single asset (or a group of similar assets) that predominantly gives rise to the basis difference. For example, if the basis difference relates predominantly to a building held by the investee, the basis difference should be amortized over the estimated useful life of the building. When the building is sold, the basis difference should be relieved to offset the investor's portion of the gain recognized by the investee. Likewise, if the predominant source of the basis difference is land, the basis difference should be treated as an indefinite-lived asset, and relieved when the land is sold.

In some instances, the basis difference may not predominantly relate to a single asset, for example, because the difference relates to several dissimilar assets (e.g., inventory, fixed assets, and customer relationships), or because the difference relates to goodwill. We believe when there is no single asset predominantly giving rise to the basis difference, a reporting entity should amortize the difference over a default period, such as 10 years, similar to the current accounting for goodwill under the private company alternative. On the separate project for goodwill accounting, the Board has acknowledged the cost and complexity associated with the subsequent accounting for goodwill and has directed its staff to research the most appropriate period over which to amortize goodwill. If the Board ultimately decides to amortize goodwill over a longer or shorter period in that project, the Board could revisit its decision in this project and adjust the amortization period accordingly.

The Board indicates that users generally are not aware of the accounting for the basis difference. We acknowledge that many users may not appreciate the mechanics behind the current guidance but the Board's proposal would reduce decision usefulness by resulting in less transparent reporting. Therefore, regardless of the method being used (predominant asset or default useful life), we believe that reporting entities should disclose the amount and method of amortization of the basis difference. Moreover, entities should disclose the nature of the asset(s) predominantly giving rise to the basis difference or, if no predominant asset is identified, the default amortization period used. This would lead to improved transparency about the nature of the basis difference and how it impacts earnings.

Any simplified method of accounting raises the question of whether it should be a requirement or an option. We believe that the simplified method in this case should be an optional practical expedient and should be made available for election at the initial accounting for an equity method investment. We believe a reporting entity that wants to continue to apply the current equity method for a particular investment should be allowed to do so. The availability of a practical expedient would not result in a significant decrease in comparability between entities because our proposed simplified approach would approximate the existing method of accounting in many cases. Furthermore, some lack of comparability already exists in practice today due to inconsistent application of the current guidance, as well as the availability of the fair value option.

In summary, we support simplifying the equity method, but believe that the accounting for basis differences should still be linked to an investee's underlying asset(s) as an optional practical expedient to the current equity method. In the longer-term, we believe the Board should add a project to its agenda to reassess the objective of the equity method more broadly.

Question 2: Should the accounting for capitalized interest, which adds to the basis of an entity's equity method investment and is amortized, also be eliminated for equity method investments? Why or why not?

We would not object to eliminating the requirement to capitalize interest on equity method investments. We understand that the current guidance on interest capitalization with respect to equity method investments is not well understood and not consistently applied. Further, when the proceeds from the borrowings are not directly used for the purchase of an equity method investment, users likely would not consider the related interest costs to be part of the investment's initial cost.

Question 3: Should an entity be required to apply the proposed amendments related to accounting for the basis difference on a modified prospective basis as of the effective date? Why or why not?

If the guidance is finalized as proposed, we agree with the modified prospective transition method described in the exposure draft. If our proposed alternative is adopted (or under any other scenario whereby amortization of the basis difference may be required or permitted), we believe that the modified prospective transition method would still be appropriate. In that case, we believe that the cumulative basis difference should be identified as of the beginning of period of adoption, and accounted for going forward based on the nature of the asset predominantly giving rise to the basis difference. When predominance cannot be established, a default amortization period should be allowed.

Question 4: Should an entity no longer be required to retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest? Why or why not?

We support the proposal to eliminate the requirement to retroactively adopt the equity method when an existing investment first qualifies for the equity method. We believe this proposal meets the objective of the Simplification Initiative. Underlying the current requirement is a presumption that consistency is improved across reporting periods through a retroactive adoption of the equity method. However, the nature of a reporting entity's relationship with its investee is different in periods prior to when the entity could exercise significant influence. Therefore, we believe the different accounting applied between the current and prior periods is justified.

Question 5: Should the proposed guidance to eliminate the requirement to retroactively adopt the equity method of accounting be applied prospectively? Why or why not?

Yes, we agree with prospective application.

Question 6: How much time will be necessary to adopt the amendments in this proposed Update? Should early adoption be permitted? Should the amount of time needed to apply the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities?

We believe public and nonpublic entities should be given approximately 2 years from the standard's issuance date to adopt the change to ensure that they have time to fully understand and communicate with users the impact of the simplified method on their financial reporting. Early adoption should be permitted. If the practical expedient we propose is allowed, entities should have a one-time option as of the effective date to opt for the practical expedient for their existing investments. The practical expedient should also be available for all new equity method investments after the effective date. Subsequent to the effective date, an election to switch to or from the practical expedient should be considered a change in accounting principle and adopted only if and when preferable.

Question 7: Would the proposed amendments meet the objective of the Simplification Initiative, which is to improve GAAP by reducing cost and complexity while maintaining or improving the usefulness of the information provided to users of financial statements? Why or why not?

As discussed in the cover letter and in our answer to Question 1, we believe that the proposed elimination of the accounting for basis differences significantly impairs the usefulness of the information provided to users of financial statements, and, thus, does not meet the objective of the Simplification Initiative.

We believe that the proposal to eliminate the retroactive adoption of equity method (when an existing investment first qualifies for equity) meets the objective of the Simplification Initiative.