ILLINOIS CPA SOCIETY

August 10, 2015

Dear Sir or Madam:

The Accounting Principles Committee of the Illinois CPA Society ("Committee") is pleased to comment on the Proposed Accounting Standards Update, Investments – Equity Method and Joint Ventures – Simplifying the Accounting the Equity Method of Accounting, dated June 5, 2015.

The Committee is a voluntary group of CPAs from public practice, industry, education, and government. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of our Committee are outlined in Appendix A to this letter.

General comments:

In general, the Committee wants to commend the FASB on its efforts to implement its Simplification Initiative. The overall plan to review existing standards for areas where cost and complexity can be reduced while maintaining or increasing financial statement usefulness should prove beneficial and meaningful to all parties involved.

While the majority of the Committee agrees that the elimination of the requirement to identify and account for basis differences for equity method investments will simplify the application of the equity method, the Committee is concerned that eliminating the requirement could give rise to other complexities, including the likelihood that more frequent impairment assessments could be required. Further, the Committee is concerned that the proposal to eliminate interest capitalization on equity method investments would result in different investment balances depending on whether the debt to finance the construction of a significant capital asset is issued by the investee (or by the investors and then loaned to the investee) or by the investors, who then finance the construction through capital contributions. In any case, the interest cost incurred to finance the construction is the same, but the carrying amount of the investment would differ, potentially by material amounts. The Committee is concerned that the FASB may be moving too quickly on this project and that spending more time on the project would minimize the potential for significant unintended consequences.

Following is the Committee's response to questions 1 to 7 posed in the exposure draft:

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?

Yes the accounting for the basis difference of equity method investments should be eliminated. The burden and cost associated with determining the acquisition date fair value of the equity method investee's identifiable assets and liabilities assumed in the same manner as for a business combination in accordance with Topic 805, Business Combinations, does not improve the usefulness of the information provided to the users of the financial statements. Furthermore, depending upon the rights conveyed in obtaining an equity ownership interest, obtaining access to confidential information of the investee for purposes of identifying all of the investee's identifiable assets and liabilities and determining their related fair values, including those assets which have no book value such as in-process research and development intangibles, can be problematic; thereby, producing an outcome which may not accurately reflect the fair value of the investee's identifiable assets and liabilities. Lastly, the nature of an equity method investment is not the same as an investment in a controlled entity and accordingly, requiring the application of Topic 805 to an equity method investee is not appropriate as the investor does not control or direct the use of the equity method investee's net assets.

While eliminating the accounting for the basis difference of equity method investments as if the investment were a consolidated subsidiary would simplify the initial accounting for the equity method investment, the proposal will create challenges after initial application. One concern in eliminating the requirement to account for the basis difference of equity method investments is the increased risk equity method investments may be impaired in the future due to the equity method investee's cost basis being higher under the proposal versus current GAAP. While amortization of the entire basis difference through equity method earnings/loss might alleviate the risk of impairment, it would negate to some extent the objective of the Simplification Initiative on this project. Furthermore, a requirement to amortize the entire basis difference would likely not eliminate the need for an impairment test given the existence of impairment indicators would warrant the need for such an impairment test irrespective a policy to amortize the entire basis difference. However, amortizing the entire basis difference would reduce the risk of future impairments and still simplify equity method accounting.

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?

Yes, the accounting for capitalized interest which adds to the basis of an entity's equity method investment should also be eliminated if the FASB decides to eliminate the accounting for basis differences. However, as noted earlier, some Committee members are concerned that removing this requirement will result in a different cost basis for a constructed asset based solely upon the structure of the transaction, rather than its economic substance. For example, in addition to the differences cited earlier in this letter for assets constructed by equity method investees, the same transaction could instead be structured as an undivided interest in an asset under construction by another party, thereby allowing for interest capitalization.

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?

Yes the proposed amendment should be applied on a modified prospective basis as of the effective date. There would be little if any benefit derived from requiring retrospective application of the proposal which would not justify the added cost to comply with this alternative adoption method. Furthermore, requiring modified retrospective application could also complicate compliance with SEC Rule 3-09, Separate Financial Statements of Subsidiaries not consolidated and 50 Percent or Less Owned Persons ("Rule 3-09") and SEC Rule 4-08, Summarized Financial Information of Subsidiaries Not Consolidated and 50 Percent or Less Owned Persons ("Rule 4-08"), when determining whether an investee is "significant" for periods previously reported. For instance, an investee may not have been "significant" previously but could become "significant" for a previously reported period under the proposal once adopted on a retrospective basis.

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?

Yes, an entity should no longer be required to retroactively adopt the equity method of accounting if the investment qualifies for the use of the equity method as a result of an increase in the level of ownership interest. For periods prior to qualifying for the use of equity method of accounting, recasting those periods to present the equity method of accounting is not reflective of actual events and circumstances in those periods previously reported. Presenting those periods "as if" equity method of accounting had been applied provides little value to the users of the financial statements which does not outweigh the cost and significant effort required to prepare such information. Requiring the adoption of equity method of accounting prospectively when an investee qualifies for the use of equity method of accounting would be similar to the requirement in ASC 320-10-30-4 which does not require the retrospective accounting for an investment when equity method of accounting is no longer appropriate. Furthermore, for the reasons outlined in question 3 above, it would also alleviate the need to comply with SEC Rules 3-09 and 4-08 for those previously reported historical periods. The FASB should also clarify in the proposal that the equity method of accounting should be applied prospectively anytime there is the decision an investment qualifies for equity method of accounting as well as the accounting treatment for unrealized gains and losses included in accumulated other comprehensive income/loss when an investment moves from "available for sale" to the equity method.

The Committee believes that, even if the FASB decides it is appropriate to spend additional time considering whether it should eliminate accounting for basis differences, the FASB should eliminate the requirement to retroactively adopt the equity method when an investment previously accounted for under the cost method qualifies for the equity method. We note that an investor is not required to account retrospectively for an investment previously accounted for under the cost method when the investor gains control over the investee and do not believe it should be required to do when it obtains the ability to significantly influence the investee's operations.

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, the proposed guidance to eliminate the requirement to retroactively adopt the equity method of accounting should be applied prospectively. Revising historical financial statements to unwind the equity method of accounting for periods prior to qualifying for the use of equity method of accounting would provide little value to the user of the financial statements.

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?

The proposed Update should allow for early adoption and will not require a significant level of effort to adopt for either PBE or other than PBE.

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?

For the reasons outlined above and assuming the adoption of the Update is on a modified prospective basis, the proposal meets the objective of the Simplification Initiative to improve GAAP by reducing the cost and complexity while maintaining the usefulness of the information provided to the users of the financial statements.

The Illinois CPA Society appreciates the opportunity to express its opinion on these issues. We would be pleased to discuss our comments in greater detail.

Sincerely,

Scott G. Lehman, CPA
Chair, Accounting Principles Committee

Ryan Brady, CPA
Vice Chair, Accounting Principles Committee

APPENDIX A
ACCOUNTING PRINCIPLES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2015-2016

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to fully study and discuss exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:	
Large: (national & regional)	
Ryan Brady, CPA (Vice Chair)	Grant Thornton LLP
John Hepp, CPA	Grant Thornton LLP
David Jamiolkowski, CPA	Baker Tilly Virchow Krause, LLP
William Keirse, CPA	Ernst & Young LLP
Scott Lehman, CPA (Chair)	Crowe Horwath LLP
Reid Mitchell, CPA	Wipfli LLP
Elizabeth Prossnitz, CPA	BDO USA LLP
Medium: (more than 40 professionals)	
Timothy Bellazzini, CPA	Sikich LLP
Christopher Cameron, CPA	Kutchins Robbins & Diamond Ltd
Michael Kidd, CPA	Mowery & Schoenfeld LLC
Matthew Mitzen, CPA	Frost Ruttenberg & Rothlatt PC
Krunal Shah, CPA	Mitchell & Titus LLP
Jeffery Watson, CPA	Miller Cooper & Company Ltd
Small: (less than 40 professionals)	
Peggy Brady, CPA	Selden Fox, Ltd.
Marvin Hoffman, CPA	Bronswick, Reicin, Pollack, Ltd.
Brian Kot, CPA	Cray Kaiser Ltd CPAs
Joshua Lance, CPA	Joshua Lance CPA, LLC
Industry:	
Rose Cammarata, CPA	CME Group Inc.
Anand Dalal, CPA	Toji Trading Group LLC
Ashlee Earl, CPA	Seaway Bank and Trust Company
Jeffrey Ellis, CPA	FTI Consulting, Inc.
Farah Hollenbeck, CPA	Abbvie
Marianne Lorenz, CPA	AGL Resources Inc.
Michael Maffei, CPA	GATX Corporation
Ying McEwen, CPA	CNH Industrial N.V.
Anthony Peters, CPA	McDonald's Corporation
Martin Ross, CPA	Riveron Consulting LP
Amanda Rzepka, CPA	Jet Support Services, Inc.
Richard Tarapchak, CPA	National Material
Staff Representative:	
Gayle Floresca, CPA	Illinois CPA Society