Technical Director -- File Reference No. 2015-280
Financial Accounting Standards Board
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File Reference: Comments on Exposure Draft, Investments – Equity Method and Joint Ventures (Topic 323), Simplifying the Equity Method of Accounting

Ford Motor Company ("Ford"), a global automotive industry leader based in Dearborn, Michigan, manufactures or distributes automobiles across six continents. We file consolidated financial statements with the SEC reflecting two business sectors, Automotive and Financial Services. We also file financial statements for Ford Credit as a separate SEC registrant. We support the efforts of the FASB to continue to identify opportunities to reduce the cost and complexity associated with financial reporting requirements, without diminishing the decision-useful information provided to investors and other financial statement users.

We agree with the FASB’s proposal to eliminate the requirement to determine the difference between the acquisition date fair value and carrying value of specific tangible assets and liabilities of an equity method investee. The proposed accounting is consistent with the economics of investment decision making, provides greater transparency to the users of the financial statements, reduces significant cost and simplifies the accounting and internal controls. We offer the following observations:

- When making an investment in an entity in which we will exercise significant influence, the investment decision generally depends on expected operational synergies and a cash return on the amount invested – not the fair value of the underlying assets and liabilities.
- Allocating the basis difference to specific assets and liabilities of the investee creates “memo” accounting. There is a considerable difference in the availability of data between an investor who exercises significant influence and data available for an investor exercising control. Substantial effort is involved to obtain the information necessary to account for the basis differences, particularly when there are differences in the accounting principles used by the investee and investor.
- Memo accounting interferes with transparency related to the performance return of the investee. Confusion results for the users of the financial statements, particularly when cash returns exceed the reported profits of the investee and when the investee separately publishes its financial results. Consider for example, circumstances when an equity investee reaches the threshold of significance in an investor’s financial statements as defined in the SEC Rule 3-09. Under the present accounting guidance, the investee’s results reported in the investor’s Form 10-K will differ from the investor’s proportionate share of the investee’s reported net profits and included in the investor’s financial statements.
- Today, an investor incurs a significant cost to obtain a valuation and perform the associated “purchase accounting.” The investor incurs costs and expends resources to identify not only recorded, but also unrecorded assets and liabilities. Furthermore, an entity incurs costs for the audit of the valuation and allocation of the purchase price that may exceed the costs of the original valuation. These costs have become excessive, particularly with the emphasis the PCAOB has placed on the audit procedures of the valuation. These costs far outweigh the benefit to the users of the financial statements or the preparers.
- Memo accounting also introduces the need for unique and duplicative internal controls for both the investor and the investee for the basis adjustments that exist.
We support the view that any difference between the amount paid by the investor and the investor’s proportionate share of the underlying book value of the investee’s assets and liabilities should simply be included in the carrying value of the investment. We have not identified any conceptual accounting basis of accounting or benefit to the users of the financial statements if we were to allocate the entire basis difference to a single asset. In addition, we are not supportive of re-introducing the concept of amortizing goodwill for the “excess” purchase price. In our opinion the Board’s objective as stated in the exposure draft would not be achieved if either of these alternatives were introduced.

We also support the view that a subsequent decline in the fair value of the investment should be addressed by the impairment guidance in Topic 323. We believe that if an equity investee is profitable and performs as anticipated, it is unlikely that the instances of an “other-than-temporary” impairment study will increase. Conversely, if an investee is unprofitable or does not perform as anticipated, an investor will need to perform the impairment test as is required today.

We noted that the Board acknowledged in BC9 of the proposed ASU that, “the proposed amendments would move the equity method away from what is referred to as a “one-line” consolidation.” We agree with the Board and we are not concerned with this change. Therefore, we support the proposed change in paragraph 323-10-35-8 to remove “a one-line consolidation.” We note that the existing standards already provide requirements for equity method investments that are inconsistent with rules of consolidation. For example:

- The need to allocate the basis difference to underlying assets of the investee as if consolidated is inconsistent with the concept that an equity investor does not own the underlying assets and liabilities of the investee; an equity investor only owns the residual net assets of the investee.
- Consistent with the concept that an investor does not own the assets and liabilities of the investee, the investor tests the carrying value of the equity investment for impairment; consolidation requires the investor to test the individual assets of the investee for impairment.
- When an investor’s ownership interest changes from non-control to control or visa versa, an investor recognizes a gain or loss; changes from consolidating level of control to another consolidating level of control does not result in a gain or loss.
- An investor discontinues reporting the losses in excess of the carrying value of its investment in an equity method investee (except under certain circumstances); under a consolidation model, the parent company continues to report the losses.

We support the proposal to eliminate the requirement to adopt retroactively the equity method of accounting resulting from an increase in the level of ownership. The costs of retrospective application are significant in terms of time and effort, and we do not consider there to be a clear benefit to users of financial statements.

Furthermore, we also support the use of the modified prospective method upon transition of the proposed guidance in this exposure draft. We highly recommend that the transition provide an entity with the option to early adopt.

Lastly, we note that the proposed guidance will create a difference in accounting between U.S. GAAP and IFRS. We continue to urge the members of both the FASB and the IASB to continue to work together to establish a single set of high-quality accounting principles. Efforts to reduce costs and complexity for multi-national companies will only be successful if the boards work collaboratively with one another to eliminate the differences in their respective frameworks.

We appreciate your consideration of our comments.

Sincerely,

Susan M. Callahan
Director, Americas Accounting and Global Accounting Policy