
FASB | IASB Education Meeting

Date	29 September 2023
Project	Equity Method
Topic	Project update—including a comparison of the IASB’s tentative decisions with US GAAP
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Agenda

Objective, approach and status of the Equity Method project

Purpose of this session

Key IASB's tentative decisions

Objective, approach and status of the Equity Method project*

Objective

To develop answers to application questions about the equity method, as set out in IAS 28 *Investments in Associates and Joint Ventures*, using the principles derived from IAS 28, where possible.

Project update

Tentative decisions on applications questions for:

Associates 

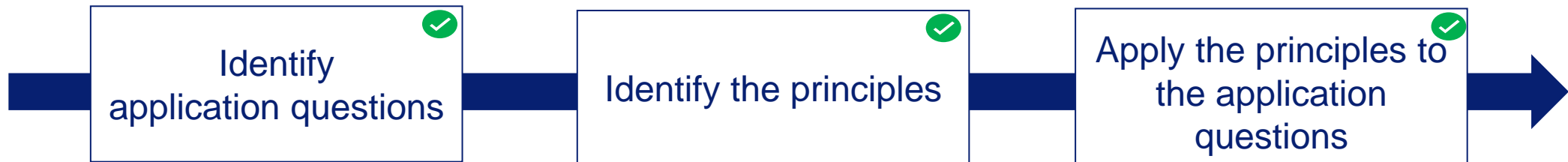
Next steps

IASB discussing implications of applying its tentative decisions to:

Joint ventures

Subsidiaries in separate financial statements

Project approach



* For more details about the project, please refer to the [project page](#) on the IFRS website, including the [summary of the IASB's tentative decisions on application questions](#).

Purpose of this session

- Present the key IASB's tentative decisions on the Equity Method project to date, comparing to the US GAAP.
- This presentation does not comprehensively compare IFRS Accounting Standards and US GAAP. Instead, it assesses whether the key IASB's tentative decisions are consistent with the application of US GAAP.

Notes

- Directionally consistent means that, for the purpose of this session, the accounting outcomes would be broadly consistent.
- [Access the summary of the IASB's tentative decisions.](#)

Key IASB's tentative decisions

Key IASB's tentative decisions are related to the following groups of application questions:

- Obtaining significant influence.
- Changes in an investor's interest while retaining significant influence:
 - Purchasing of an additional interest in an associate.
 - Disposing of an interest in an associate.
 - Other changes in an investor's ownership interests.
- Recognition of losses.
- Transactions with equity-accounted investments.
- Deferred taxes.
- Contingent consideration.

Slides 6–7

Slides 8–11

Slides 12–13

Slides 14–15

Slides 16–17

Slides 18–19

Obtaining significant influence



Obtaining significant influence

Application question

An investor, with a previously held interest in an entity, acquires an additional interest and obtains significant influence. Does the initial measurement of the investment include the original purchase cost of the previously held interest or the carrying amount of that interest in accordance with IFRS 9 *Financial Instruments*?

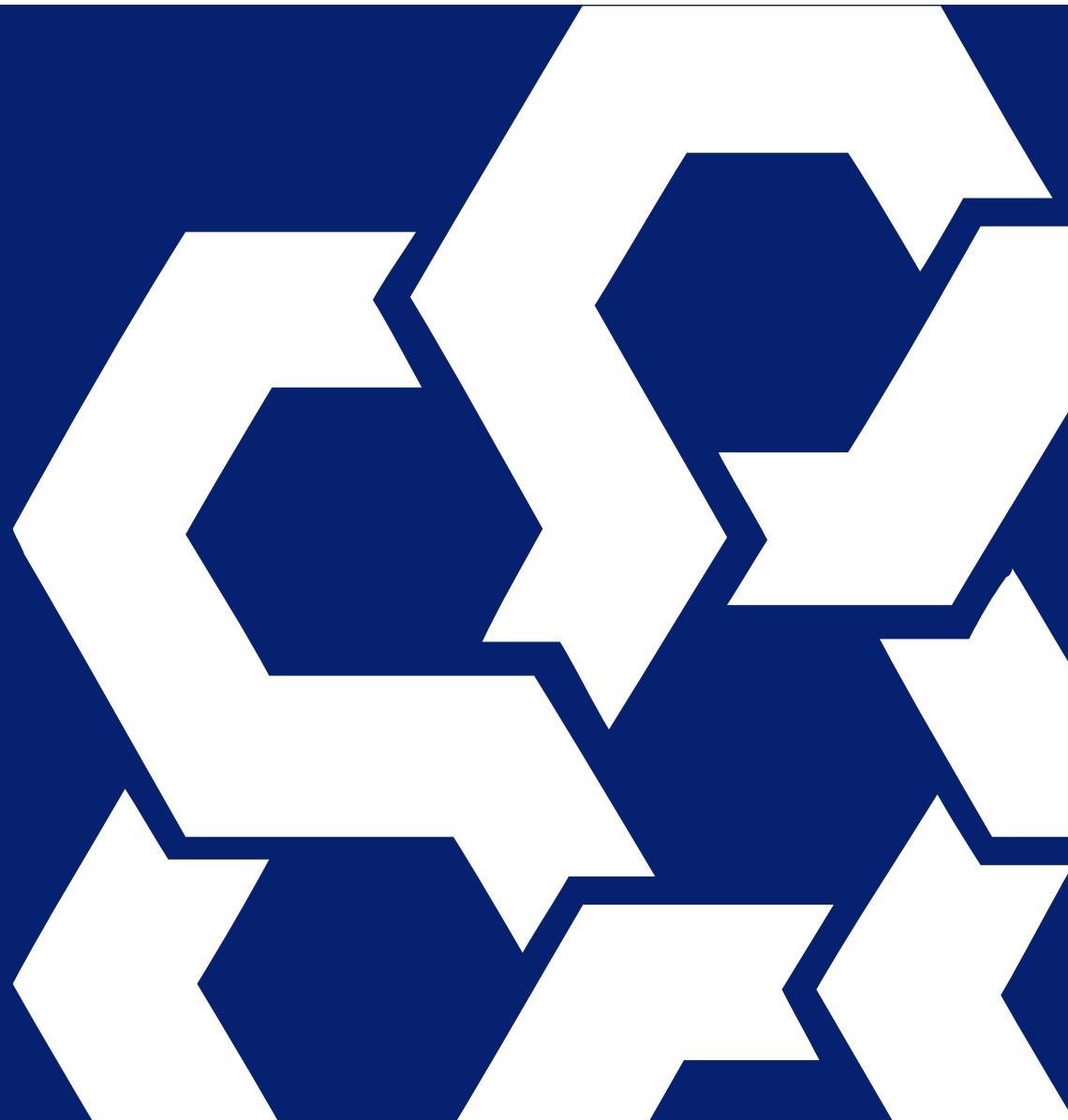
IASB's tentative decision

An investor would measure **the cost of an investment**, when an investor obtains significant influence, **at the fair value of the consideration transferred**, including the **fair value of any previously held interest in the associate**.

Directionally consistent



Changes in an investor's interest while retaining significant influence



Purchasing of an additional interest in an associate

Application question

How does an investor apply the equity method when purchasing an additional interest in an associate while retaining significant influence?

IASB's tentative decision

An investor would recognise any **difference** between the **cost of the additional interest** and its **additional share in the net fair value** of the associate's identifiable assets and liabilities either as **goodwill** or **gain from a bargain purchase**.

The investment is an **accumulation of purchases**.

Directionally consistent



except that US GAAP **does not** include requirements on a **bargain purchase**.

Disposing of an interest in an associate

Application question

How does an investor apply the equity method when disposing of an interest in an associate while retaining significant influence?

IASB's tentative decision

An investor would measure the **portion** of the investment to be derecognised as a **proportion** of the **carrying amount** of the investment at the date of the disposal.

The investor is **measuring a single investment** in an associate.

Directionally consistent



Other changes in an investor's ownership interests

Application question

Does an investor recognise its share of other changes in an associate's net assets while retaining significant influence, and if so, how is the change presented?

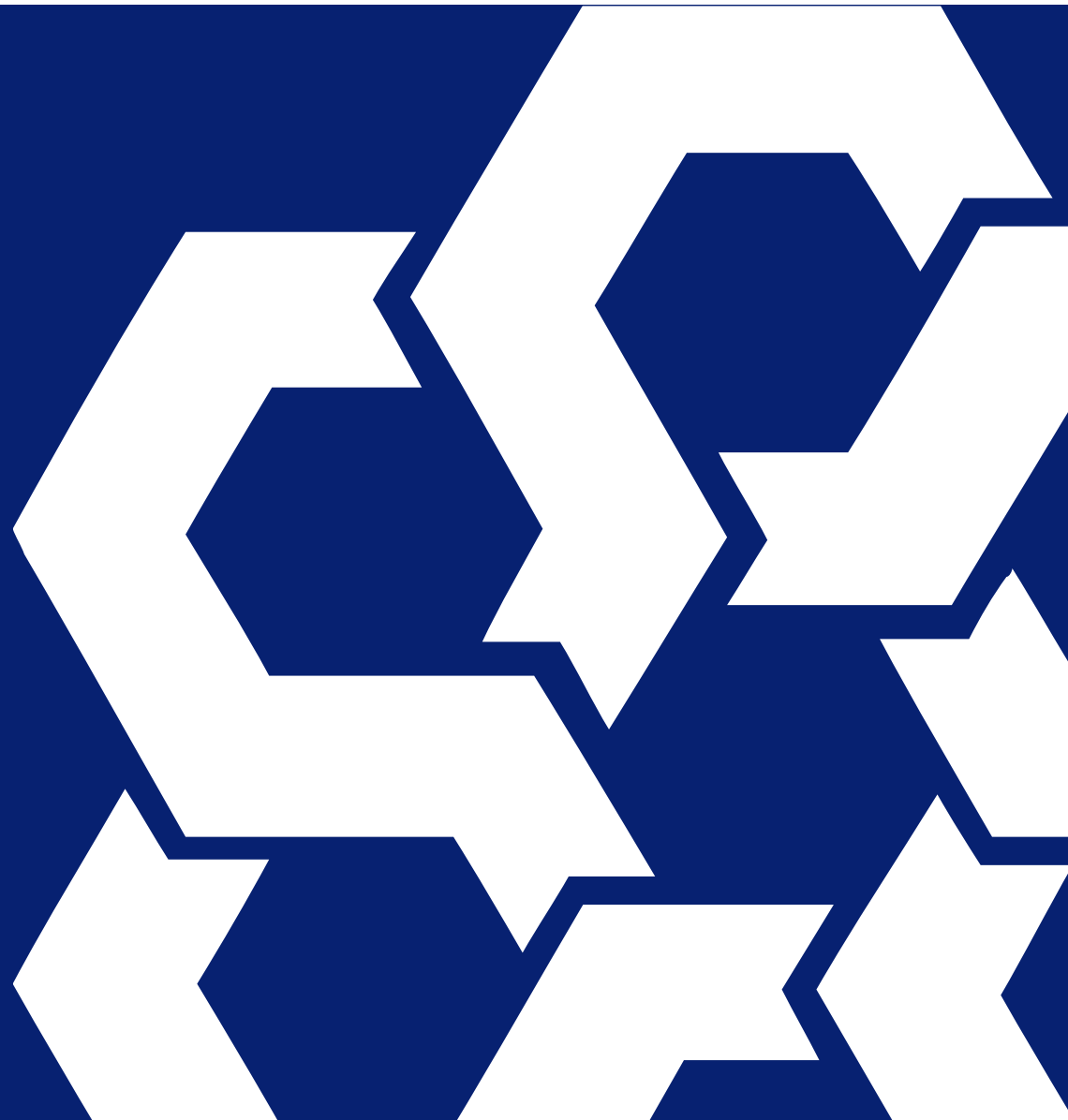
IASB's tentative decision

When an investor's ownership **interest increases or decreases**, the investor would recognise that change as a **purchase of an additional interest or a partial disposal**.

Directionally consistent



Recognition of losses



Purchasing of an additional interest and 'catch up' unrecognised losses

Application question

Is an investor that has reduced the carrying amount of its investment to nil required to 'catch up' unrecognised losses if it purchases an additional interest in the associate?

IASB's tentative decision

An investor, that has **reduced** the carrying amount of its investment to nil and has **stopped recognising its share** of an associate's losses, would **not recognise any unrecognised losses** on purchasing an additional interest in the associate.

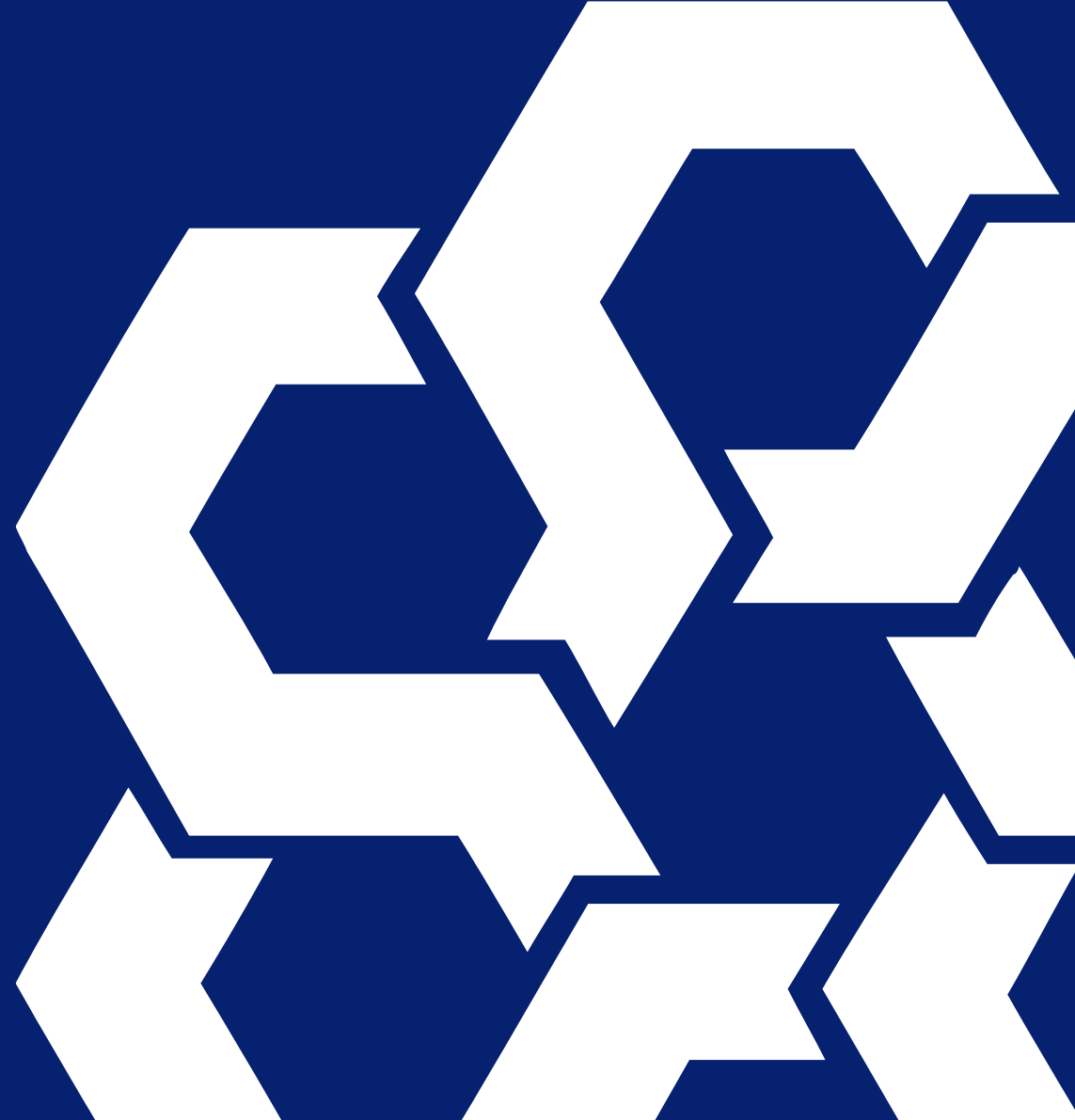
Directionally consistent



US GAAP:

If a subsequent investment in an investee **does not** result in the ownership interest increasing from **significant influence to control** and, in whole or in part, represents, in substance, the funding of prior losses, the investor should **recognise previously suspended losses** only **up to** the amount of the **additional investment** determined to represent the funding of prior losses.

Transactions with equity- accounted investments



Transactions with equity-accounted investments

Application question

How should an investor recognise gains or losses that arise from the sale of a subsidiary to its associate?

IASB's tentative decision

An investor would recognise the **full gain or loss** on **all transactions** with its associate.

Directionally consistent

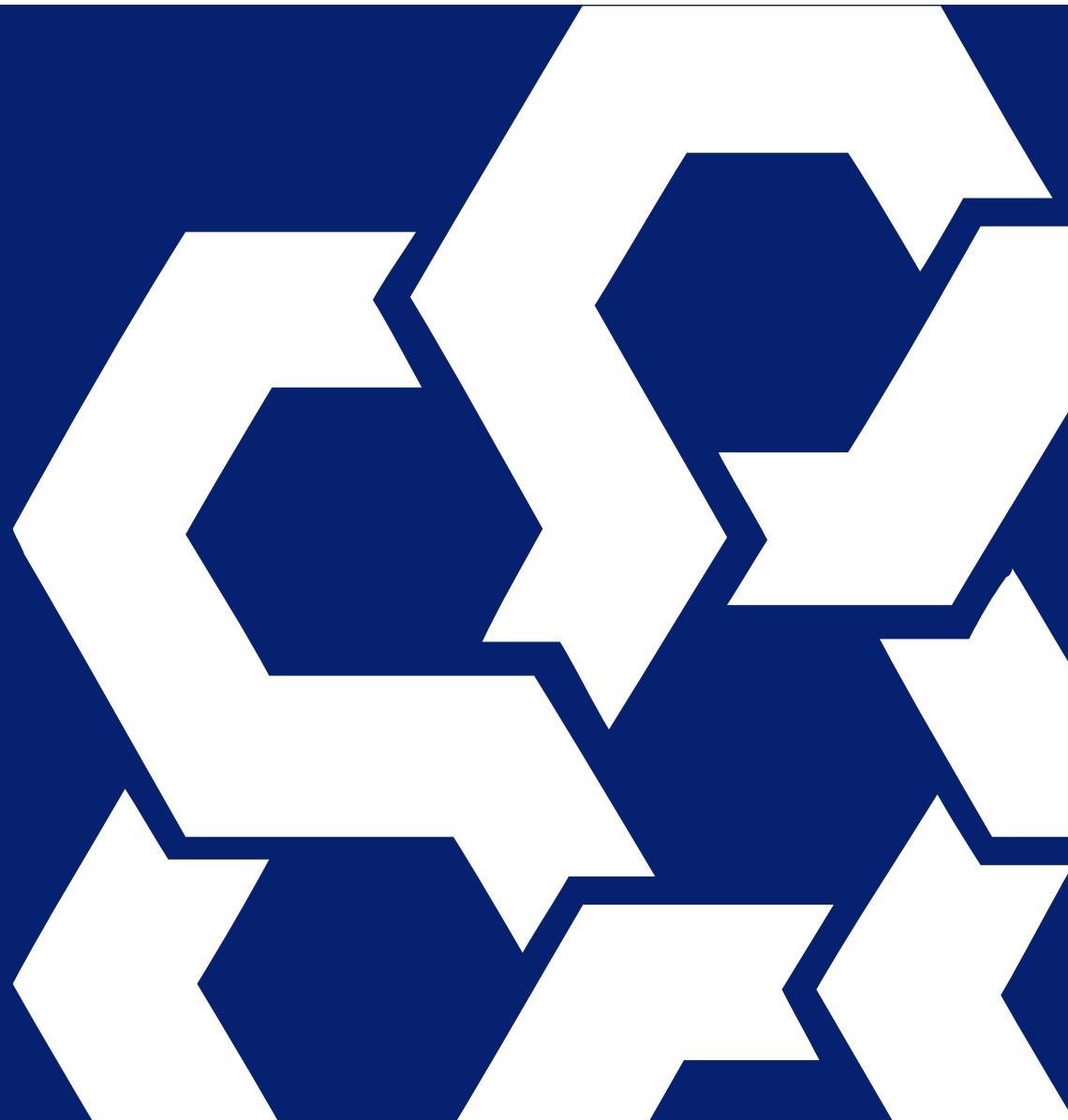


Downstream, except for the sale of an **asset** that is an **output** of an **entity's ordinary activities**.



Upstream, US GAAP **requires** Intra-Entity **eliminations**.

Deferred taxes



Initial recognition of an investment in an associate—Deferred taxes

Application question

Does an investor account for a deferred tax asset (or liability) arising from recognising its share of the associate's net identifiable assets and liabilities at fair value?

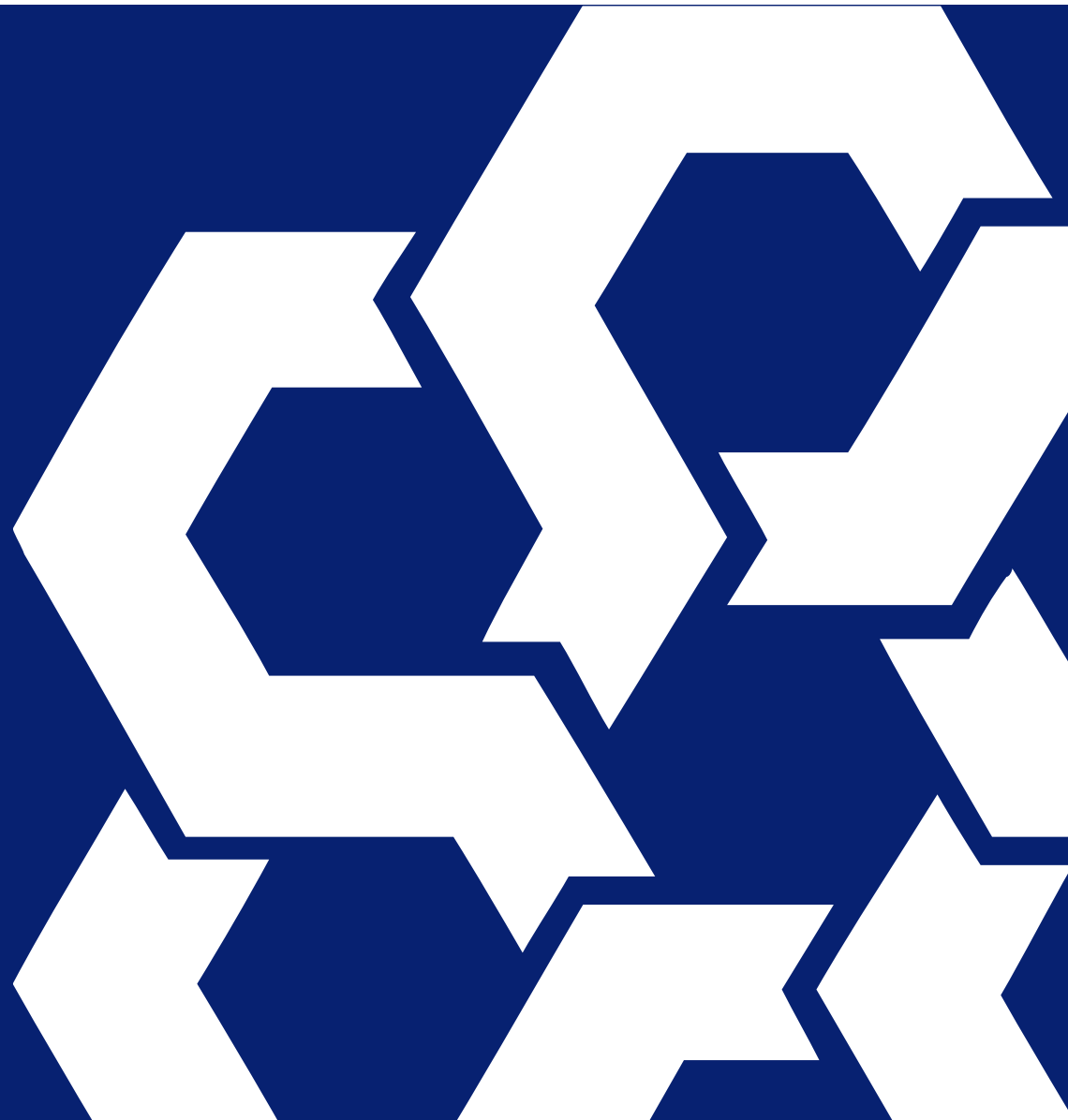
IASB's tentative decision

An investor would **account for**, and include in the carrying amount of its investment in an associate, a **deferred tax asset (or liability)** arising from recognising its share of the **associate's net identifiable assets and liabilities** at fair value.

Directionally consistent



Contingent consideration



Contingent consideration

Application question

How does an investor, initially and subsequently, recognise and measure contingent consideration on acquisition of an investment in an associate?

IASB's tentative decision

On acquisition of an investment in an associate, an investor would recognise contingent consideration as part of the cost of the investment and measure it at fair value.

After the acquisition date, an investor would measure it (except contingent consideration classified as equity) at fair value at each reporting date and recognise changes in fair value in profit or loss.

Directionally consistent

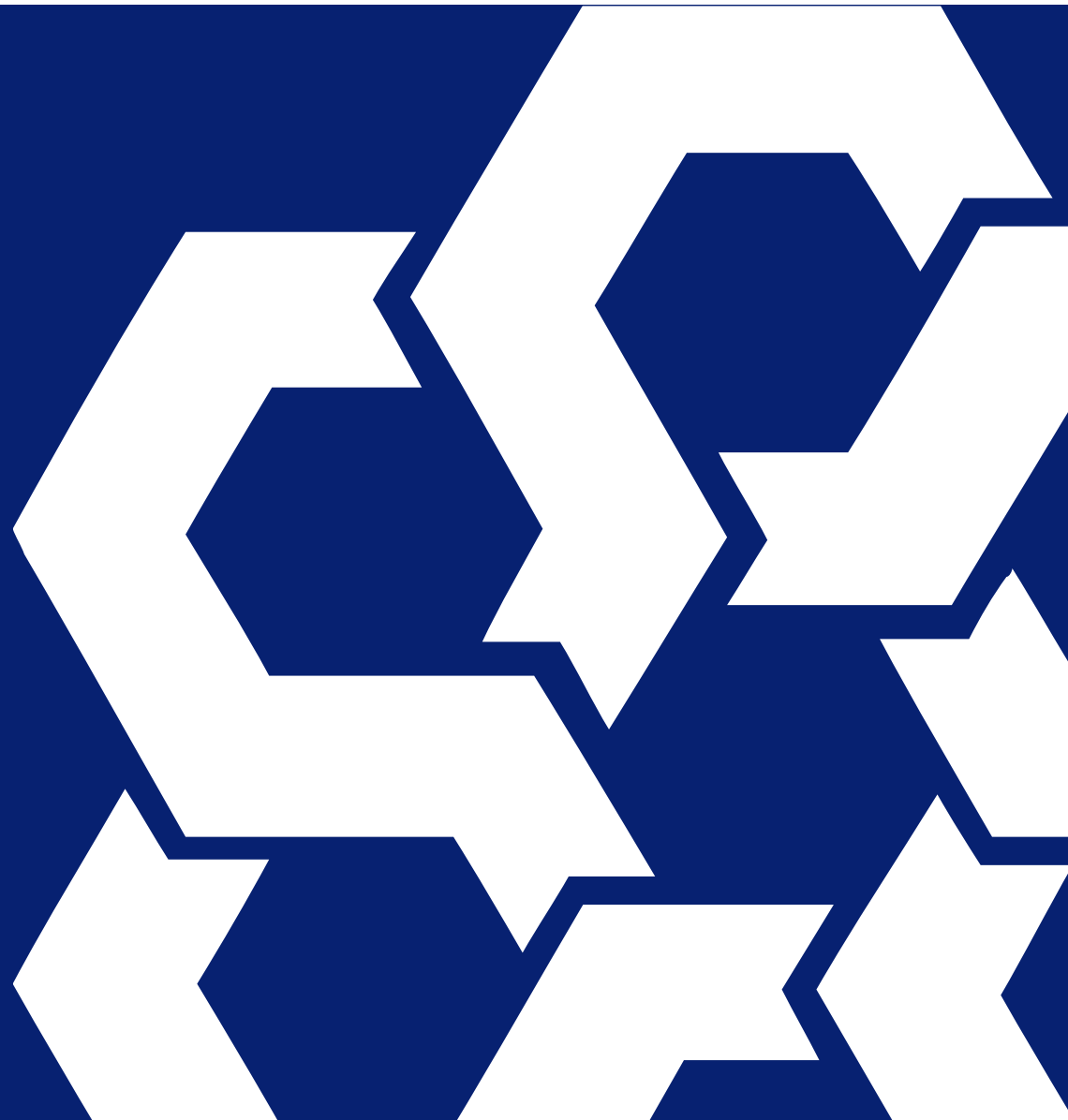


US GAAP:

Contingent consideration is included in the initial measurement **only** if it is **required** to be recognised by **other applicable GAAP**.

If the acquisition of an investment in an associate is a **bargain purchase**, a contingent consideration **liability** should be **recognised**.

Thank you



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