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 approach
- Identify application questions
- Identify the principles
- Apply the principles to the application questions

Project update
Tentative decisions on applications questions for:
- Associates

Next steps
IASB discussing implications of applying its tentative decisions to:
- Associates
- Joint ventures
- Subsidiaries in separate financial statements

* For more details about the project, please refer to the [project page](https://www.ifrs.org) 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.
Obtaining significant influence
Obtaining significant influence

<table>
<thead>
<tr>
<th>Application question</th>
<th>IASB’s tentative decision</th>
<th>Directionally consistent</th>
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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?

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.
Changes in an investor’s interest while retaining significant influence
### Purchasing of an additional interest in an associate

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>How does an investor apply the equity method when purchasing an additional interest in an associate while retaining significant influence?</td>
<td>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.</td>
<td>except that US GAAP does not include requirements on a <strong>bargain purchase</strong>.</td>
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The investment is an **accumulation of purchases**.
## Disposing of an interest in an associate

<table>
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<td>How does an investor apply the equity method when disposing of an interest in an associate while retaining significant influence?</td>
<td>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.</td>
<td><strong>✓</strong></td>
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</tbody>
</table>

The investor is measuring a single investment in an associate.
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

Yes
Recognition of losses
## Purchasing of an additional interest and ‘catch up’ unrecognised losses

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<td>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?</td>
<td>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.</td>
<td>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.</td>
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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

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<td>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?</td>
<td>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.</td>
<td>✓</td>
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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