

**FASB Emerging Issues Task Force**  
**Draft Abstract**  
**EITF Issue 08-6**

<b>Notice for Recipients of This Draft EITF Abstract</b>
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October 1, 2008

EITF Issue No. 08-6, "Equity Method Investment Accounting Considerations," addresses the following issues:

- Issue 1— How the initial carrying value of an equity method investment should be determined
- Issue 2— How the difference between the investor's carrying value, as determined in Issue 1, and the investor's share of the underlying equity of the investee should be allocated to the underlying assets and liabilities of the investee
- Issue 3 —How an impairment assessment of an underlying indefinite-lived intangible asset of an equity method investment should be performed
- Issue 4— How an equity method investee's issuance of shares should be accounted for.
- Issue 5— How to account for a change in an investment from the equity method to the cost method.

The attached draft abstract reflects the consensus-for-exposure reached by the Task Force on Issues 1, 3, and 4 at the September 10, 2008 EITF meeting. The Task Force tentatively concluded that it would not address Issue 2. On Issue 5, the Task Force reached a consensus-for-exposure that an equity method investor should continue to apply the guidance in paragraph 19(1) of Opinion 18 upon a change in the investor's accounting from the equity method to the cost method. As these tentative consensus do not require any changes in generally accepted accounting principles, they have not been reflected in the attached draft abstract.

The Task Force invites individuals and organizations to send written comments on all matters within this draft abstract. Comments are requested from those who agree with the provisions in this draft abstract as well as from those who do not. Comments are most helpful if they identify the issue and the specific paragraph or group of paragraphs to which they relate and clearly explain the issue or question. Those who disagree with the consensus-for-exposure presented

in this draft abstract are asked to describe their suggested alternatives, supported by specific reasoning.

### **New Format for FASB Documents**

This draft abstract has been written in a new format intended to improve its understandability. Notable changes from previous formats include the use of bold text at the beginning of each section to convey the accounting principle for that section and the inclusion of examples in the body of the standard to illustrate the proposed accounting guidance for certain paragraphs, when applicable.

Comments will be considered by the Task Force at the November 13, 2008 EITF meeting.

Responses from interested parties wishing to comment on the draft abstract must be received in writing by October 22, 2008. Interested parties should submit their comments by email to [director@fasb.org](mailto:director@fasb.org), File Reference No. EITF0806. Responses should not be sent by fax.

**Title:** Equity Method Investment Accounting Considerations

**Dates Discussed:** September 10, 2008; [November 13, 2008]

**References:** FASB Statement No. 141, *Business Combinations*  
FASB Statement No. 141 (revised 2007), *Business Combinations*  
FASB Statement No. 142, *Goodwill and Other Intangible Assets*  
FASB Statement No. 154, *Accounting Changes and Error Corrections*  
FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*  
AICPA Accounting Research Bulletin No. 51, *Consolidated Financial Statements*  
APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*  
SEC Staff Accounting Bulletin No. 51, *Accounting for Sales of Stock by a Subsidiary*  
International Accounting Standard No. 28, *Investments in Associates*

### **Objective**

**1. The objective of this Issue is to clarify how to account for certain transactions involving equity method investments.**

<p><b>All paragraphs in this Issue have equal authority. Paragraphs in bold set out the main principles.</b></p>
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### **Background**

2. The FASB and the IASB recently concluded a joint effort in converging the accounting for business combinations as well as the accounting and reporting for noncontrolling interests culminating in the issuance of Statement 141(R) and Statement 160. The objective of that joint effort was not to reconsider the accounting for equity method investments; however, the application of the equity method is affected by the accounting for business combinations and the accounting for consolidated subsidiaries, which were affected by the issuance of Statement 141(R) and Statement 160.

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\* This draft abstract is being exposed for a public comment period that will end on October 22, 2008.

## Scope

3. **This Issue applies to all investments accounted for under the equity method.**

## Initial Measurement

4. **An entity shall measure its equity method investment initially at cost in accordance with paragraphs D3–D7 of Statement 141(R).**

5. Contingent consideration should only be included in the initial measurement of the equity method investment if it is required to be recognized by specific authoritative guidance.

6. However, if an equity method investment agreement involves a contingent consideration arrangement in which the fair value of the investor's share of the investee's net assets exceeds the investor's initial cost, an amount equal to the lesser of the following shall be recognized as a liability:

- a. The maximum amount of contingent consideration not otherwise recognized
- b. The excess of the investor's share of the investee's net assets over the initial cost measurement (including contingent consideration otherwise recognized).

7. When a contingency is resolved relating to a liability recognized pursuant to paragraph 6 and the consideration is issued or becomes issuable, any excess of the fair value of the contingent consideration issued or issuable over the amount that was recognized as a liability shall be recognized as an additional cost of the investment. If the amount initially recognized as a liability exceeds the fair value of the consideration issued or issuable, that excess shall reduce the cost of the investment.

## Decrease in Investment Value

8. **An equity method investor is required to recognize other-than-temporary impairments of an equity method investment in accordance with paragraph 19(h) of Opinion 18. An equity method investor shall not separately test an investee's underlying indefinite-lived intangible asset(s) for impairment.**

## Change in Level of Ownership or Degree of Influence

9. **An equity method investor shall account for a share issuance by an investee as if the investor had sold a proportionate share of its investment. Any gain or loss to the investor resulting from an investee's share issuance shall be recognized in earnings, subject to certain exceptions.**

10. Gain recognition would not be appropriate in situations in which subsequent capital transactions are contemplated that raise concerns about the likelihood of the investor realizing that gain or in situations in which the investee is a newly-formed, non-operating entity, a research and development entity, a start-up or development stage entity, an entity whose ability to continue in existence is in question, or an entity in another similar circumstance. In those situations, the change in the investor's proportionate share of subsidiary equity shall be accounted for as an equity transaction in consolidation. Subsequent reversal of the amount recognized in equity is prohibited.

**Transition**

11. This Issue is effective on a prospective basis in fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. Earlier application by an entity that has previously adopted an alternative accounting policy is not permitted. The transition disclosures in paragraphs 17 and 18 of Statement 154 shall be provided, if applicable.

**The provisions of this Issue need not be applied to immaterial items.**