# Interpretation of the Emerging Accounting Issues Working Group

# INT 01-07: EITF 98-2: Accounting by a Subsidiary or Joint Venture for an Investment in the Stock of Its Parent Company or Joint Venture Partner

## ISSUE NULLIFIED BY SSAP NO. 97

### INT 01-07 Dates Discussed

December 4, 2000; March 26, 2001

### INT 01-07 References

*SSAP No. 46—Investments in Subsidiary, Controlled and Affiliated Entities* (SSAP No. 46)
*SSAP No. 88—Investments in Subsidiary, Controlled and Affiliated Entities, A Replacement of SSAP No. 46* (SSAP No. 88)
*SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities, A Replacement of SSAP No. 88* (SSAP No. 97)

### INT 01-07 Issue

1. A subsidiary or joint venture may purchase the stock of its parent company or joint venture partner for various reasons, including to provide stock-based compensation to employees of the subsidiary or joint venture, to hedge the cost and cash requirements of stock appreciation rights, or to hold as an investment.

2. Authoritative guidance addresses the accounting for such an investment in consolidation. Paragraph 13 of ARB No. 51, *Consolidated Financial Statements* states that shares of a parent company held by a subsidiary should not be treated as outstanding stock in the consolidated balance sheet of the parent. However, accounting guidance does not directly address the accounting for such an investment in the separate financial statements of the subsidiary or joint venture.

3. FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (FAS 115) addresses the accounting and reporting for certain investments in debt and equity securities. Paragraph 3 of FAS 115 states that "this Statement establishes standards of financial accounting and reporting for investments in equity securities that have readily determinable fair values ...” In addition, paragraph 4 of FAS 115 states that "this Statement does not apply . . . to investments in consolidated subsidiaries.” It does not address the reverse situation, that is, an investment by the subsidiary in the parent.

4. The issues are:

Issue 1 - How a subsidiary should account for an investment in the stock of its parent company in the separate financial statements of the subsidiary

Issue 2 - How a joint venture should account for an investment in the stock of its joint venture partner in the separate financial statements of the joint venture.

## INT 01-07 Discussion

5. The working group reached a consensus to reject the positions reached in *EITF 98-2, Accounting by a Subsidiary or Joint Venture for an Investment in the Stock of Its Parent Company or Joint Venture Partner* as these issues are already provided for in paragraphs 15 and 16 of SSAP No. 97. It should be noted that the Securities Valuation Office provides a worksheet for both of these reciprocal ownership elimination computations.

## INT 01-07 Status

6. No further discussion planned.