

Interpretation of the Emerging Accounting Issues Working Group

INT 04-10: EITF 02-18: Accounting for Subsequent Investments in an Investee after Suspension of Equity Method Loss Recognition

ISSUE NULLIFIED BY SSAP NO. 48 AND SSAP NO. 97

INT 04-10 Dates Discussed

September 12, 2004; December 5, 2004

INT 04-10 References

SSAP No. 46—Investments in Subsidiary, Controlled, and Affiliated Entities (SSAP No. 46)

SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies (SSAP No. 48)

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 04-10 Issue

1. *EITF 02-18, Accounting for Subsequent Investments in an Investee after Suspension of Equity Method Loss Recognition* (EITF 02-18) summarizes the issues dealt with in *INT 00-24: EITF 98-13: Accounting by an Equity Method Investor for Investee Losses When the Investor Has Loans to and Investments in Other Securities of the Investee* (EITF 98-13) and *EITF 99-10: Percentage Used to Determine the Amount of Equity Method Losses* (INT 00-24) and notes additional questions raised related to accounting for subsequent investments in an investee after suspension of equity method loss recognition when an investor increases its ownership interest.

2. The accounting issues for this interpretation are:

Issue 1 Assuming an investor has appropriately suspended equity method loss recognition in accordance with paragraph 19.i. of *APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock* and EITF 98-13, whether an investor should recognize any previously suspended losses when accounting for a subsequent investment in an investee.

Issue 2 If it is determined in Issue 1 that the additional investment, in whole or in part, represents the funding of prior losses, whether all previously suspended losses should be recognized or whether only the previously suspended losses equal to the portion of the investment determined to be funding prior losses should be recognized.

3. Please note that the issues listed above exclude the concept of control discussed in EITF 02-18 as statutory accounting has a different definition of control.

INT 04-10 Discussion

4. Per EITF 02-18, the consensus position is as follows:

9. The Task Force reached consensus on Issues 1 and 2 that if the additional investment, in whole or in part, represents, in substance, the funding of prior losses, the investor should recognize previously suspended losses only up to the amount of the

additional investment determined to represent the funding of prior losses... Whether the investment represents the funding of prior losses, however, depends on the facts and circumstances.

10. The Task Force observed that judgment is required in determining whether prior losses are being funded and that all available information should be considered in performing the related analysis. The following are certain factors to consider in that regard. However, no one factor should be considered presumptive or determinative.

- Whether the additional investment is acquired from a third party or directly from the investee. When the additional investment is purchased from a third party and the investee does not obtain additional funds either from the investor or the third party, it is unlikely that, in the absence of other factors, prior losses are being funded.
- The fair value of the consideration received in relation to the value of the consideration paid for the additional investment. For example, if the fair value of the consideration received is less than the fair value of the consideration paid, it may indicate that prior losses are being funded to the extent that there is disparity in the value of the exchange.
- Whether the additional investment results in an increase in ownership percentage of the investee. In instances in which the investment is made directly with the investee, the investor should consider the form of the investment and whether other investors are making simultaneous investments proportionate to their interests. Investments made without a corresponding increase in ownership or other interests, or a pro rata equity investment made by all existing investors, may indicate that prior losses are being funded.
- The seniority of the additional investment relative to existing equity of the investee. An investment in an instrument that is subordinate to other equity of the investee may indicate that prior losses are being funded.

11. The Task Force also observed that, upon making the additional investment, the investor should evaluate whether it has become otherwise committed to provide financial support to the investee.

12. The Task Force indicated that it would provide guidance in a separate EITF Issue for determining whether, at the time of the additional investment, an investor becomes "otherwise committed" to provide financial support to an equity-method investee.

5. The working group reached a consensus to adopt the consensus position of EITF 02-18, with modification to exclude reference to the concept of control, as an interpretation of SSAP Nos. 48 and 97.

6. Accordingly, the working group makes no additional comment on what constitutes "otherwise committed" to provide financial support to an equity-method investee until such time the working group reviews the guidance expected to be generated by the EITF.

INT 04-10 Status

7. No further discussion is planned.