



Memo No. 4

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Project	Equity Method of Accounting: Targeted Improvements		
Project Stage	Initial Deliberations		
Issue	Project Update		

Memo Purpose

1. The purpose of this memo is to facilitate discussion among PCC members at the December 12, 2025 meeting on the equity method of accounting.
2. This memo is organized as follows:
 - (a) Background
 - (b) Overview of Current Guidance
 - (c) Stakeholder Feedback
 - (d) Potential Paths Forward
 - (e) Next Steps.

Questions for the PCC

1. Do you have any questions about the project scope and objective?
2. Are there any unique considerations for private companies related to the project scope and objective?
3. Would the potential paths as outlined in paragraph 44 improve the operability of the equity method of accounting? Please explain.

Background

3. In January 2025, the staff issued the [Invitation to Comment, Agenda Consultation](#) (2025 ITC), to solicit broad stakeholder feedback about the future standard-setting agenda of the FASB.
4. On November 12, 2025, the Board discussed the pre-agenda research, including stakeholder feedback, on the accounting for equity method investments. The Board added a project to its technical agenda to improve the operability of the accounting for equity method investments.
5. Additionally, the Board decided that the scope of the project, which would apply to all entities, would be to:
 - (a) Address the accounting for a subset of equity method investments in partnerships and similar entities for which the investor¹ is unable to significantly influence the operating and financial policies of the investee but is required to apply the equity method because of presumptive levels of influence.
 - (b) Clarify how equity method investors in non-real-estate entities should determine equity in earnings for investees with complex allocation structures.

Overview of Current Guidance

6. Investments held in stocks of entities other than consolidated subsidiaries are generally accounted for in accordance with Topic 321, Investments—Equity Securities, or Topic 323, Investments—Equity Method and Joint Ventures. The appropriate method of accounting depends on the degree to which the investor can influence the operating and financial decisions of the investee. When an investor has the ability to exercise significant influence over the operating and financial policies of an investee, it is required to apply the equity method, which is often referred to as one-line consolidation. That characteristic is meant to differentiate investments that have a return that can be influenced by an investor from those investments that are more passive in nature. When an equity investment is not accounted for under the equity method of accounting, it is accounted for as an equity security under Topic 321. Additional details on the equity method of accounting as well as the accounting for equity securities are provided below.

Equity Method of Accounting

7. Topic 323 provides guidance on the equity method of accounting. That guidance was primarily established by APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, which was issued in March 1971. In developing that guidance, the Accounting Principles Board

¹ Throughout this memo, “users” is used to refer to “investors and other financial statement users” to distinguish from “equity method investors.”

concluded that the equity method would best enable investors "to reflect the underlying nature of their investment[s]."

8. While many of the principles underlying the equity method are included in GAAP, the details of how those principles must be applied often vary. As a result, entities often analogize to other authoritative and non-authoritative guidance when applying the equity method, which can lead to application challenges and diversity in practice. The following section provides a high-level overview of the equity method of accounting, expanding on those areas that are most relevant in understanding stakeholder feedback. Therefore, this section provides additional details for the areas that were most frequently cited as challenging to apply (for example, the determination of significant influence) and describes how an entity might analogize to other areas of guidance when specific GAAP does not exist (for example, application of hypothetical liquidation at book value method [HLBV]).

Scope

9. Subtopic 323-10, Investments—Equity Method and Joint Ventures—Overall, provides general guidance on the application of the equity method of accounting. Other Subtopics in Topic 323 largely leverage that guidance and provide incremental guidance for different types of investments. Included below are Subtopics in Topic 323 that are relevant to the discussion in this memo:
 - (a) **Subtopic 323-10.** This Subtopic applies to investments in common stock or in-substance common stock² of corporations, corporate joint ventures, and limited liability companies that do not maintain specific ownership accounts for each investor (referred to as corporate-form entities).
 - (b) **Subtopic 323-30, Investments—Equity Method and Joint Ventures—Partnerships, Joint Ventures, and Limited Liability Entities.** This Subtopic applies to investments in partnerships, unincorporated joint ventures, and limited liability companies that maintain specific ownership accounts for each investor (referred to as partnership-form entities).
 - (c) **Subtopic 970-323, Real Estate—General—Investments—Equity Method and Joint Ventures.** This Subtopic provides accounting guidance on various forms of real estate ownership, including real property owned by undivided interests.
10. Paragraph 323-10-05-5 states that "the equity method tends to be most appropriate if an investment enables the investor to influence the operating or financial decisions of the investee." However, the degree of influence that must be present differs on the basis of whether the investment is in a corporate-form entity or a partnership-form entity.

² In accordance with paragraph 323-10-15-13, in-substance common stock is an investment in an entity that has risk and reward characteristics that are substantially similar to the entity's common stock. That paragraph provides three factors to consider in evaluating whether an investment in an entity is substantially similar to an investment in the entity's common stock, including whether (a) the investment has *subordination characteristics* that are substantially similar to the entity's common stock, (b) the investment has *risks and rewards of ownership* that are substantially similar to an investment in the entity's common stock, and (c) the investee is expected to transfer substantive value to the investor and the common shareholders do not participate in a similar manner.

11. Investments in a corporate-form entity are required to be accounted for under the equity method when the investor has significant influence. Significant influence is presumed to exist when an investor has a direct or indirect investment of 20 percent or more of the voting stock of the investee (paragraph 323-10-15-8).³ Conversely, the investor is presumed not to have significant influence when its investment is less than 20 percent of the voting stock. These presumptions stand until overcome by “predominant evidence to the contrary,” which requires an evaluation of all facts and circumstances relating to the investment. The guidance includes lists of indicators of significant influence (paragraph 323-10-15-6) and lack of significant influence (paragraph 323-10-15-10). The list of indicators that significant influence exists is as follows:
- (a) Representation on the board of directors
 - (b) Participation in policy-making processes
 - (c) Material intra-entity transactions
 - (d) Interchange of managerial personnel
 - (e) Technological dependency
 - (f) Extent of ownership by an investor in relation to the concentration of other shareholdings.
12. Investments in a partnership-form entity are accounted for under the equity method unless the investor’s interest is “so minor [that it has] virtually no influence.” The virtually no influence threshold was established by AICPA Statement of Position 78-9, *Accounting for Investments in Real Estate Ventures* (later codified as Subtopic 970-323). Specifically, paragraph 8 of SOP 78-9 (later codified as paragraph 970-323-25-6) indicates that the equity method of accounting is generally appropriate for a limited partner’s investment in a general partnership, unless the limited partner’s interest is so minor that the limited partner has virtually no influence. This was based on the view that the appropriate method of accounting for entities that maintain specific ownership accounts for each investor is a method that allocates the investee’s earnings to each owner’s account.
13. Guidance from the U.S. Securities and Exchange Commission (SEC) provides requirements and notes that “the SEC staff understands practice generally has viewed investments of more than 3 to 5 percent to be more than minor.” That guidance (later codified as paragraph 323-30-S99-1) originates from an SEC Staff Announcement made at the May 18–19, 1995, Emerging Issues Task Force (EITF) meeting for EITF Topic No. D-46, *Accounting for Limited Partnership Investments*. At that meeting, the EITF discussed a letter from the SEC Observer about the SEC staff’s position that investments in all limited partnerships should be accounted for pursuant to paragraph 8 of SOP 78-9. Before that letter, the SEC staff had not objected to the 20 percent threshold for limited partnership investments, assuming the investor concluded that it did not have significant influence over the investee, as defined in APB 18.

³ Assuming the investee does not have a controlling financial interest in the investee, which would require consolidation.

14. Although paragraphs 970-323-25-6 and 323-30-S99-1 specifically apply to real estate partnerships and SEC registrants, respectively, the guidance is generally applied in practice to all investments in a partnership-form entity, including investments made by private companies.

Initial Measurement

15. An investor generally⁴ recognizes its equity method investment at cost, which includes transaction costs, and presents it as a single amount on its balance sheet. Measuring cost is typically straightforward when an equity method investment is acquired for cash. However, it may be more complicated when the transaction includes noncash elements such as contingent consideration, a transfer of assets, or the issuance of equity.

Subsequent Measurement

16. Under the equity method, an investor recognizes its share of the earnings or losses of an investee (referred to as equity in earnings) in reported income in the periods that those earnings and losses are reported by the investee. At each reporting period, the carrying amount of the equity method investment is adjusted for the investee's underlying activity, including, among others, the following:
- (a) **Equity in earnings—simple allocation structures.** An investor generally recognizes equity in earnings on the basis of the proportion of the investee's common stock that it owns.
 - (b) **Equity in earnings—complex allocation structures.** In complex allocation structures, an investor's share of earnings may not be aligned with ownership percentages and determining the investor's equity in earnings requires careful consideration of the substance of the arrangement. In these circumstances, investors often calculate their share of equity in earnings by using HLBV.⁵ The name HLBV and the details on how to apply HLBV are not included in the Codification; however, paragraph 970-323-35-17 indicates that an investor in a complex allocation structure should not use specified profit and loss allocation ratios if the cash and liquidating distributions for the investee are determined on some other basis.⁶ Although that guidance applies to investments

⁴ In some instances, an equity method investment is initially recognized at an amount other than cost. For example, a retained investment in the common stock of an investee in a deconsolidation transaction is initially measured at fair value in accordance with paragraphs 810-10-40-3A through 40-5.

⁵ The hypothetical liquidation at book value method (HLBV) was described in the proposed AICPA Statement of Position, *Accounting for Investors' Interests in Unconsolidated Real Estate Investments* (the proposed HLBV SOP). The proposed HLBV SOP was issued in November 2000 but ultimately not finalized.

⁶ Paragraph 970-323-35-17 states that

Such agreements may also provide for changes in the allocations at specified times or on the occurrence of specified events. Accounting by the investors for their equity in the venture's earnings under such agreements requires careful consideration of substance over form and consideration of underlying values as discussed in paragraph 970-323-35-10. To determine the investor's share of venture net income or loss, such agreements or arrangements shall be analyzed to determine how an increase or decrease in net assets of the venture (determined in conformity with GAAP) will affect cash payments to the investor over the life of the venture and on its liquidation. Specified profit and loss allocation ratios shall not be used to determine an investor's equity in venture earnings if the allocation of cash distributions and liquidating distributions are determined on some other

in real estate ventures, investors broadly analogize to it when accounting for equity method investments in complex allocation structures and use HLBV as a method for applying the guidance in paragraph 970-323-35-17. Under HLBV, the share of an investee's earnings or losses is calculated on the basis of a change in the investor's interest in the investee's net assets, assuming that the investee was to liquidate all assets at their GAAP amounts.

- (c) **Other comprehensive income (OCI).** An investor recognizes its proportionate share of the investee's equity adjustments for OCI as an increase or a decrease to the carrying amount of its equity method investment with a corresponding adjustment in the investor's OCI.
- (d) **Capital activity.** An investor recognizes an adjustment to reflect its share of capital transactions of an investee. For example, dividends received from an investee reduce the carrying amount of an equity method investment. As another example, treasury share repurchases by the investee could increase the investor's ownership interest in the investee and affect the investor's basis differences (see below for further information on basis differences).
- (e) **Dilution gain/loss.** If an investee issues shares in a transaction in which the equity method investor does not participate (or does not participate equally), the ownership interest of that investor is reduced. Provided the equity method investor does not lose significant influence as a result of the issuance, an investor accounts for a share issuance by an investee as if the investor had sold a proportionate share of its investment (paragraph 323-10-40-1). The investor would also proportionately reduce its equity method basis differences, if any, to reflect the dilution and proportionate reduction in ownership.

17. In addition to adjustments for the investee's underlying activity, the carrying amount of the equity method is adjusted for other investor-level adjustments, including:

- (a) **Intra-entity eliminations.** Some or all intra-entity profits and losses on asset transfers are eliminated until realized by the investor or investee in transactions with third parties.
- (b) **Basis differences.** For the initial recognition of an equity method investment, an investor calculates the difference between the cost of its investment and the amount of underlying equity in net assets of the investee (that is, the investor's share of the investee's net assets as reported under GAAP) and allocates that difference to the investee's underlying assets and liabilities. This allocation, which is done in memo accounts, is determined on the basis of the difference between the investor's proportionate share of the fair value and the carrying value, if any, of each asset and liability of the investee. Basis differences are subsequently tracked in the memo accounts to determine any necessary adjustments to equity method earnings in subsequent periods.

basis. For example, if a venture agreement between two investors purports to allocate all depreciation expense to one investor and to allocate all other revenues and expenses equally, but further provides that irrespective of such allocations, distributions to the investors will be made simultaneously and divided equally between them, there is no substance to the purported allocation of depreciation expense.

- (c) **Equity method goodwill.** If an investee meets the definition of a business, the investor uses principles from Topic 805, Business Combinations, to allocate the cost of its investment to the assets and liabilities of the investee, including allocation for separately identifiable intangible assets and, if applicable, equity method goodwill. This allocation gives rise to basis differences. An investor does not amortize equity method goodwill unless it applies the accounting alternative for private companies and not-for-profit entities (NFPs). Additionally, an investor does not review equity method goodwill for impairment under Topic 350, Intangibles—Goodwill and Other.
- (d) **Other-than-temporary impairment (OTTI).** An investor must review its equity method investment for impairment whenever changes in circumstances indicate that the carrying amount of the investment might not be recoverable. If the investor determines that the fair value of an equity method investment is less than its carrying amount and the impairment is other than temporary, it reduces the carrying amount of the investment to its fair value as a charge to the income statement through equity in earnings of the investee. While Topic 323 provides some indication of what may be an OTTI, GAAP does not provide specific factors of OTTI. In practice entities often consider the following indicators that were suggested by the SEC staff for evaluating OTTI of equity securities before application of Topic 321:
 - (i) The length of time and the extent to which the market value has been less than cost
 - (ii) The financial condition and near-term prospects of the investee
 - (iii) The intent and ability of the investor to retain its investment for a period of time sufficient to allow for any anticipated recovery in market value.

18. An investor generally stops applying the equity method when its share of the investee's net losses has reduced its investment to zero unless an imminent return to profitable operations by the investee appears to be assured or the investor has (a) guaranteed obligations of the investee, (b) committed to providing further financial support, or (c) made additional investments in the investee.

Fair Value Option (FVO) for Equity Method Investments

19. In accordance with Topic 825, Financial Instruments, an investor is generally permitted to measure its equity method investment at fair value under the FVO as an alternative to applying the equity method. This election is irrevocable⁷ and is made:

- (a) When an investment first becomes subject to the equity method. For example, when first acquired or when an existing equity security accounted for under Topic 321 becomes subject to the equity method because the investor increases its holdings and gains significant influence.

⁷ The election is irrevocable even if the investor later loses significant influence and the retained investment becomes subject to Topic 321, Investments—Equity Securities. Therefore, the investor would continue to fair value the investment each period and not be able to elect the measurement alternative in Topic 321 (if the investment did not have a readily determinable fair value).

- (b) On an instrument-by-instrument basis, except that paragraph 825-10-25-7 requires the investor of an equity method investment to then apply the FVO to all of its financial interests in the investee (equity and debt, including guarantees) if those interests are otherwise eligible for the FVO.
20. Under the FVO, the investor remeasures its investment to fair value at each reporting date with changes in fair value recognized in net income. For equity investments in public entities that are actively traded, fair value is generally determined by multiplying the security's trading price by the number of shares held. Determining fair value for investments in privately held entities can be more challenging and requires using a valuation model or models consistent with the principles in Topic 820, Fair Value Measurement.

Presentation and Disclosure

21. An equity method investor presents its equity method investments and equity in earnings of the investee as a single amount on the statement of financial position and the income statement, respectively. In the statement of comprehensive income, an investor may combine its share of the investee's OCI components with its own OCI components or present its share of the investee's OCI separately. Distributions from an investee must be evaluated to determine whether they represent a return of capital (investing activity) or a return on capital (operating activity) in the statement of cash flows. To make that determination, an equity method investor makes an accounting policy election to use either the cumulative earnings approach⁸ or the nature of distribution approach.⁹
22. If an investor has elected to account for its equity method investment under the FVO, it must follow the presentation requirements in Topic 825. For example, assets and liabilities accounted for under the FVO must be presented separately from similar assets and liabilities not accounted for under the FVO in the statement of financial position.
23. Subtopic 323-10 provides the general disclosure requirements for equity method investments. Other Subtopics under Topic 323 provide incremental or different disclosures. If an entity has elected the FVO for its equity method investee, it is generally required to provide the same disclosures as would be required absent that election, unless specifically noted otherwise.
24. Table 1 below includes an overview of the disclosure requirements in Subtopic 323-10, including whether the disclosure is required for would-be equity method investments accounted for under the FVO. Paragraph 323-10-50-2 notes that an investor should consider the significance of an investment to its financial position and results of operations when determining the extent of its disclosures.

⁸ Under the cumulative earnings approach, an equity method investor compares the cumulative distributions it receives from the investee with its cumulative equity in earnings from that investee. If cumulative distributions received exceed cumulative equity in earnings, such excess is considered a return of investment. All other distributions are considered a return on investment.

⁹ Under the nature of distribution approach, distributions received are classified on the basis of the nature of the activity (or activities) of the investee that generated the distribution.

Table 1: Overview of Subtopic 323-10, Disclosure Requirements for Equity Method Investments

Disclosure	Required if FVO Elected? ¹⁰
1. The investee's name and the investor's percentage ownership.	Yes
2. The reason why an investor does not apply the equity method if it holds 20 percent or more of the investee's voting stock, ¹¹ or the reason it does apply the equity method if it holds 20 percent or less of the investee's voting stock. ¹²	Yes
3. The overall basis difference in the investment, if any, and the accounting treatment for the difference.	No
4. The aggregate fair value if a quoted market price is available.	No
5. Summarized balance sheet and income statement information for equity method investments that are material in the aggregate, disclosed either individually or in groups, as appropriate.	Yes
6. Material effects to the investor's share of the investee's earnings that may result from conversion, exercise, or issuance of investee convertible securities, or outstanding options or warrants.	No

25. In addition to Subtopic 323-10, other areas of GAAP have disclosure requirements that affect equity method investments. Some examples of those disclosures include:

- (a) **Topic 850, Related Party Disclosures.** Equity method investments, including those for which the FVO has been elected, meet the definition of a related party. Therefore, an entity must provide related party disclosures for material intra-entity transactions (for example, disclosure of amounts due from or to the investee at each balance sheet date).
- (b) **Topic 460, Guarantees.** Paragraph 460-10-50-6 notes that the disclosures required by Topic 460 are incremental to the disclosures required in Topic 850 for guarantees issued to benefit entities that are related parties. Because an equity method investment is a related party, the investor would therefore be required to provide the Topic 460 disclosures.

Topic 321

Scope

26. As noted previously, Topic 321 applies to non-consolidated equity securities that do not meet the requirements to be accounted for under the equity method of accounting. Additionally, Topic 321 applies to all entities, excluding those in specialized industries whose accounting practices include

¹⁰ If an investor has elected the FVO to account for its equity method investment, it must also provide the disclosures in Topic 825 for investments accounted for under the FVO.

¹¹ Assuming the investee does not have a controlling financial interest in the investee, which would require consolidation.

¹² Or 3 to 5 percent for investments in partnership-form entities.

accounting for substantially all investments at fair value (for example, brokers and dealers in securities that are accounted for under Topic 940, Financial Services—Brokers and Dealers).

Initial Measurement

27. Topic 321 does not provide specific guidance on the initial measurement of equity securities, other than guidance for equity securities that no longer qualify to be accounted for under the equity method because an investor lost significant influence. In practice, Topic 321 securities are typically measured at the transaction price plus transaction costs on initial recognition. Those transaction costs are generally recognized in net income either (a) in the period of acquisition if the securities are remeasured each period or (b) when the carrying amount is next adjusted for an observable price change if the security is measured under the measurement alternative (see below).

Subsequent Measurement

28. Investments in equity securities are subsequently measured at fair value each reporting period, with changes in fair value (realized and unrealized) recognized in earnings, unless an entity elects to measure an equity security without a readily determinable fair value¹³ under the measurement alternative.
29. Dividend income from investments is included in earnings and unlike in Topic 323, an investor does not make other adjustments for transactions between the investor and the investee (for example, elimination of intra-entity profits and losses).

Measurement Alternative

30. An entity can elect to measure an equity security without a readily determinable fair value at cost minus impairment (referred to as the measurement alternative) unless that equity security qualifies for the

¹³ The Master Glossary defines the term *Readily Determinable Fair Value* as follows:

An equity security has a readily determinable fair value if it meets any of the following conditions:

- a. The fair value of an equity security is readily determinable if sales prices or bid-and-asked quotations are currently available on a securities exchange registered with the U.S. Securities and Exchange Commission (SEC) or in the over-the-counter market, provided that those prices or quotations for the over-the-counter market are publicly reported by the National Association of Securities Dealers Automated Quotations systems or by OTC Markets Group Inc. Restricted stock meets that definition if the restriction terminates within one year.
- b. The fair value of an equity security traded only in a foreign market is readily determinable if that foreign market is of a breadth and scope comparable to one of the U.S. markets referred to above.
- c. The fair value of an equity security that is an investment in a mutual fund or in a structure similar to a mutual fund (that is, a limited partnership or a venture capital entity) is readily determinable if the fair value per share (unit) is determined and published and is the basis for current transactions.

practical expedient in paragraph 820-10-35-59 (referred to as the net asset value (NAV) practical expedient).¹⁴

31. The measurement alternative is elected at the investment level. After an entity has made the election, it must re-evaluate whether the security is still eligible for the measurement alternative at each reporting date (for example, an entity evaluates whether a readily determinable fair value for the security has become available or whether the security has become eligible for the NAV practical expedient). An entity can subsequently elect to measure a security at fair value (in other words, elect to no longer use the measurement alternative), however, Topic 321 includes guidance that prevents an entity from switching back and forth between measurement methods. Specifically, if an investor makes an election to go back to fair value, that subsequent election is irrevocable (that is, the security must always be fair valued) and the investor also is required to measure all identical or similar investments of the same issuer at fair value.
32. Under the measurement alternative, the security is measured at cost and remeasured to fair value when impaired or when the investor identifies an observable price change in an orderly transaction for an identical or similar investment (referred to as an observable transaction). The following is a summary of key terms related to the identification of an observable transaction:
 - (a) **Observable price change.** In accordance with paragraph 321-10-55-8, to identify observable price changes, an entity should consider relevant transactions that occurred on or before the balance sheet date that are known or could be reasonably known. When identifying a price change that can reasonably be known, an entity must make a reasonable effort (that is, without expending undue cost and effort) to identify any observable price changes that it may not be readily aware of. However, entities need not conduct an exhaustive search for all observable price changes.
 - (b) **Orderly transaction.** The Codification's Master Glossary defines an orderly transaction as one that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities. That is, an orderly transaction does not include a forced transaction (for example, a forced liquidation or distress sale). Paragraphs 820-10-35-54C through 35-54J provide additional guidance that an entity can use to help assess what an orderly transaction is.
 - (c) **Similar or identical investment.** In accordance with paragraph 321-10-55-9, an entity determines if a security is a similar or an identical investment by considering the security's qualitative rights and obligations (such as voting rights, distribution rights, preferences, and

¹⁴ Paragraph 820-10-35-59 permits an entity to elect a practical expedient to measure an investment at NAV for investments in an investment company within the scope of Topic 946, Financial Services—Investment Companies, or investments in a real estate fund for which industry practice is to measure investment assets at fair value on a recurring basis consistent with the measurement principles of Topic 946.

conversion features). The staff understands that this often can be difficult in practice and requires significant judgment.

33. If a transaction is considered to be observable, the security's carrying amount is adjusted either upward or downward to its fair value as of the date that the observable transaction occurred.¹⁵ Importantly, Topic 321 requires the security to be remeasured to fair value in accordance with Topic 820 (which may or may not be the observed transaction price). For example, paragraph 321-10-55-9 indicates that an entity should adjust the observable price of a similar security for different rights and obligations to determine the amount that should be recorded as an upward or downward adjustment.
34. In addition to adjustments for observable transactions, equity securities accounted for under the measurement alternative are tested for impairment and written down to fair value if a qualitative assessment indicates that the investment is impaired. That is, an entity first performs a qualitative assessment, and if that assessment indicates that the investment is impaired, the entity must determine the fair value of the security in accordance with Topic 820. Paragraph 321-10-35-3 provides impairment indicators that an entity must consider, which include, but are not limited to, the following:
- (a) A significant deterioration in the earnings performance, credit rating, asset quality, or business prospects of the investee
 - (b) A significant adverse change in the regulatory, economic, or technological environment of the investee
 - (c) A significant adverse change in the general market condition of either the geographical area or the industry in which the investee operates
 - (d) A bona fide offer to purchase, an offer by the investee to sell, or a completed auction process for the same or similar investment for an amount less than the carrying amount of that investment
 - (e) Factors that raise significant concerns about the investee's ability to continue as a going concern, such as negative cash flows from operations, working capital deficiencies, or noncompliance with statutory capital requirements or debt covenants.
35. This impairment model is different from the model in Topic 323, which requires an investor to write down its equity method investment to fair value when the impairment is considered other than temporary.

¹⁵ If an observable transaction occurs in a previous reporting period and the financial statements have not been issued, or made available for issuance, the adjustment to the security's carrying value is made for the previous reporting period. If the financial statements have been issued, an entity must either make the adjustment in the current period or consider Topic 250, Accounting Changes and Error Corrections, depending on whether a reasonable effort was made in the prior reporting periods to identify the transaction.

Disclosures

36. Topic 321 requires disclosure, for all interim and annual periods, of the portion of unrealized gains and losses for the period¹⁶ that relates to equity securities still held at the reporting date.¹⁷
37. Additionally, entities are required to present, in both interim and annual periods, the following disclosures for equity securities accounted for under the measurement alternative:
- (a) The security's carrying amount
 - (b) The amount of impairments and downward adjustments, if any, both annual and cumulative
 - (c) The amount of upward adjustments, if any, both annual and cumulative
 - (d) As of the date of the most recent statement of financial position, narrative information to help users understand the quantitative disclosures and the information that the entity considered in reaching the carrying amounts and upward or downward adjustments resulting from observable price changes.
38. An entity also is required to provide the disclosures required by Topic 820. However, Topic 321 indicates that if the disclosures required by that Topic achieve the fair value disclosure requirements described in Topic 820, an entity does not need to duplicate the relevant fair value disclosures.

Stakeholder Feedback

39. In January 2025, the staff issued the 2025 ITC to solicit broad stakeholder feedback about the future standard-setting agenda of the FASB. The discussions included within the 2025 ITC were based on significant input from stakeholders received during the second half of 2024. On the basis of that outreach, the 2025 ITC included a discussion related to the equity method of accounting in “Chapter 1—Combination of Entities.”
40. Approximately one-third of respondents across all stakeholder types provided feedback on the accounting for equity method investments and among preparer respondents to the 2025 ITC, this topic was one of five topics most frequently cited as a high priority. Stakeholders generally identified the following key accounting challenges related to the equity method of accounting:
- (a) **The equity method of accounting can be costly and complex.** Examples of these costs include the accounting for basis differences, intra-entity gains or losses, and dilution gains or losses. Stakeholders noted that for certain types of investments, the cost and complexity of performing the equity method do not justify the benefits of the information it provides to users.

¹⁶ Calculated as (a) net gains and losses recognized during the period on equity securities, less (b) net gains and losses recognized during the period on equity securities sold during the period.

¹⁷ Other than not-for-profit entities (NPFs), which are excluded from this requirement.

- (b) **Identifying which investments should be accounted for under the equity method.** In addition to challenges faced when evaluating the qualitative factors of significant influence, many stakeholders struggle with the unintuitive outcomes that result from having different thresholds for evaluating significant influence in investments in corporate-form entities and investments in partnership-form entities. Specifically, stakeholders noted that investors often have to apply the equity method because they trip the 3 to 5 percent threshold and not because they have significant influence. As a result, stakeholders have to use the equity method to account for investments in limited partnerships that are more passive in nature and, in their view, should be accounted for in a similar manner as equity securities in the scope of Topic 321.
- (c) **Allocating profits and losses in complex allocation structures.** There is a lack of authoritative guidance for how an investor should allocate profits and losses in complex allocation structures, which can lead to diversity in practice and financial reporting outcomes that do not reflect the economics of the transactions.

41. Overall, stakeholders provided mixed views on whether the Board should address this area as a priority and, if so, how the Board should address it. Those stakeholders who identified the equity method as a top priority cited the key challenges noted above and recommended a variety of solutions to address those challenges, ranging from eliminating the equity method and requiring all equity method investments to be accounted for under Topic 321 to making targeted improvements to Topic 323 to improve its operability. Those stakeholders who identified this topic as a low priority said that the equity method guidance, while complex, is generally well understood by preparers and users and therefore, there is no pervasive need to significantly change GAAP at this time. Additionally, stakeholders cautioned that making significant changes to the equity method, or eliminating the equity method, could have unintended consequences and decrease the decision usefulness of information provided to users. Many other ITC respondents who did not identify this topic as a top priority agreed that the equity method can be challenging to apply. Therefore, while these stakeholders did not identify the equity method as a top priority, they were open to standard-setting in this area if the Board pursued a project that was focused on making targeted improvements to the guidance.

42. Additional details on the 2025 ITC feedback related to the equity method can be found [here](#).

Previous PCC Member Feedback

43. The staff met with the PCC in June 2025 and September 2025 as part of its outreach on the 2025 ITC. PCC members were generally supportive of the Board pursuing a project to improve the accounting for equity method investments and highlighted the following areas for the Board's consideration:

- (a) Applying the equity method can be complex, including the accounting for basis differences and evaluating the different thresholds applied in the determination of significant influence for corporate-form entities and partnership-form entities.

- (b) Retaining the fair value option and considering whether accounting for equity method investments under the measurement alternative in Topic 321, Investments—Equity Securities, could be a solution.

Potential Paths Forward

44. The staff is further developing potential solutions to improve the operability of the accounting for equity method investments based on the project scope that the Board decided to pursue (as noted in paragraph 5 of this memo). Specifically, on the basis of staff research, stakeholder outreach, and Board feedback, the staff has identified the following high-level paths forward for each of the areas that the Board decided to pursue:

- (a) Address the accounting for a subset of equity method investments in partnerships and similar entities for which the investor is unable to significantly influence the operating and financial policies of the investee but is required to apply the equity method because of presumptive levels of influence:
 - (i) **Path 1A—Clarify the scope of Topic 323.** This path would evaluate whether there should be a single threshold for applying the equity method, regardless of the type of legal entity, including understanding whether there is external support for establishing a single threshold of significant influence in guidance that does not originate from the FASB.
 - (ii) **Path 1B—Permit a narrow subset of equity method investments to elect a measurement alternative.** This path would explore whether an investor could elect a measurement alternative to account for an equity method investment in a partnership-form entity if the investor holds less than 20 percent of that investment and the qualitative factors of significant influence are not present. This path could also explore operational challenges in applying the measurement alternative in Topic 321 and whether changes should be made to that alternative as part of this election.

Additionally, both Path 1A and Path 1B would explore whether the qualitative factors of significance influence in Subtopic 323-10 are operational for investments in partnership-form entities.

- (b) Clarify how equity method investors in non-real-estate entities should determine equity in earnings for investees with complex allocation structures (the following paths are not intended to be mutually exclusive):
 - (i) **Path 2A—Moving industry-specific guidance in Subtopic 970-323 to Subtopic 323-10.** This path would move paragraph 970-323-35-17 to Subtopic 323-10. Additionally, this path would explore whether there are other paragraphs in Subtopic 970-323 that should be moved

to Subtopic 323-10 because they more broadly relate to equity method investments in all types of entities (and therefore, should not be industry-specific).

(ii) **Path 2B—Clarifying key challenges in the accounting for complex allocation structures.**

This path would explore making targeted improvements to the guidance on complex allocation structures (in paragraph 970-323-35-17) to address key challenges in the accounting for those structures (for example, how an entity should consider liquidation provisions that apply only in remote circumstances when evaluating the substance of an arrangement).

(iii) **Path 2C—Adding implementation guidance and illustrative examples for the allocation of earnings in complex allocation structures.** This path would add implementation guidance and illustrative examples to Topic 323 to show the application of the methodology used in HLBV as a type of method that could be used when determining equity in earnings for complex allocation structures.

Next Steps

45. The staff will further develop the details of the project for discussion at a future Board meeting by performing research and outreach with practitioners, preparers, and users. The staff plans to include various industries as well as public entities, private companies, and NFP entities in that outreach.