FASB EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: October 28, 2026
Comments Due: January 11, 2027

Investments—Equity Method and Joint Ventures (Topic 323)

Equity Method of Accounting—Targeted Improvements

The Board issued this Exposure Draft to solicit public comment on proposed changes to Topic 323 of the *FASB Accounting Standards Codification*®. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to director@fasb.org, or sending a letter to "Technical Director, File Reference No. 2026-ED800, FASB, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116."

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on all matters in this Exposure Draft until January 11, 2027. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at Exposure Documents Open for Comment
- Emailing comments to director@fasb.org, File Reference No. 2026-ED800
- Sending a letter to "Technical Director, File Reference No. 2026-ED800, FASB, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116."

All comments received are part of the FASB's public file and are available at www.fasb.org.

The *FASB Accounting Standards Codification*® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective. A copy of this Exposure Draft is available at www.fasb.org.

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Summary and Questions for Respondents

Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)?

The Board is issuing this proposed Update to improve the operability of the accounting for equity method investments in Topic 323, Investments—Equity Method and Joint Ventures.

In response to the 2025 FASB Invitation to Comment, *Agenda Consultation*, stakeholders identified key challenges in the accounting for equity method investments, including (1) the different criteria for applying the equity method of accounting to investments in corporations (and similar entities) and investments in partnerships (and similar entities), (2) the lack of authoritative guidance on allocating earnings in complex allocation structures for investments in non-real-estate entities, and (3) the cost and complexity of applying the equity method of accounting.

To address that feedback, the Board decided to make the following targeted improvements to the equity method:

1. **Issue A: Scope of Topic 323.** Require a single threshold (significant influence) for applying the equity method of accounting, regardless of the legal form of the entity, and make certain changes to the indicators of significant influence in Subtopic 323-10, Investments—Equity Method and Joint Ventures—Overall.
2. **Issue B: Complex Allocation Structures.** Clarify how the equity method is applied by investors that have equity method investments with complex allocation structures.

Who Would Be Affected by the Amendments in This Proposed Update?

The amendments in this proposed Update would affect all entities with investments that are currently accounted for under the equity method and investments that must be evaluated to determine whether the equity method of accounting applies.

The amendments in this proposed Update also would address entities that have the following:

1. Investments in unincorporated legal entities in the construction industry or an extractive industry accounted for by proportionately consolidating the assets, liabilities, revenues, and expenses of the investee (referred to as "proportionate consolidation")
2. Investments accounted for under the proportional amortization method in Subtopic 740-323, Income Taxes—Investments—Equity Method and Joint Ventures
3. Noncontrolling interests in a subsidiary with a complex allocation structure
4. Investments in the real estate industry that are evaluated for consolidation.

What Are the Main Provisions, How Would the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP), and Why Would They Be an Improvement?

Issue A: Scope of Topic 323

The requirements to apply the equity method of accounting differ on the basis of the legal form of the investee. Investments in the common stock or in-substance common stock of corporations, corporate joint ventures, and limited liability companies that do not maintain specific ownership accounts for each investor (collectively, "investments in corporations") are accounted for under the equity method when an entity (the investor) has significant influence, which is presumed to exist when an entity holds 20 percent or more of the voting stock of the investee. In contrast, investments in partnerships, unincorporated joint ventures, and limited liability companies that maintain specific ownership accounts for each investor (collectively, "investments in partnerships") are accounted for under the equity method when an entity has a more than minor investment (referred to as the "more-than-minor threshold"), commonly viewed in practice as more than 3 to 5 percent. Stakeholders said that these different thresholds can lead to inconsistent outcomes that are confusing, unintuitive, and difficult to explain. In addition, much of the guidance that relates to these

investments is included in industry-specific guidance for real estate investments.

The amendments in this proposed Update would require a single threshold (significant influence) for applying the equity method of accounting, regardless of the legal form of the investee, which would improve consistency and comparability in financial reporting.

The amendments in this proposed Update also would improve the operability of the significant influence guidance in Subtopic 323-10 by:

1. Removing the presumption that an entity does not have significant influence when it holds less than 20 percent of an investee
2. Expanding the board of directors indicator to include functionally equivalent governing bodies in partnership structures
3. Specifying that a noncontrolling general partner or functional equivalent (such as a managing member in a limited liability company) has significant influence.

The amendments in this proposed Update also would ensure that the population of investments that are currently eligible for proportionate consolidation or the proportional amortization method would remain eligible for those methods of accounting.

Issue B: Complex Allocation Structures

Subtopic 323-10 does not address how to allocate an entity's share of the earnings of an investee (referred to as "equity in earnings") in complex allocation structures (for example, in an investee that distributes earnings or cash using a distribution waterfall). Subtopic 970-323, Real Estate—General—Investments—Equity Method and Joint Ventures, indicates that investors in these types of structures must carefully consider substance over form; however, that guidance applies to investments in real estate ventures only. The amendments in this proposed Update would improve the navigability of the Codification by moving the guidance in Subtopic 970-323 on complex allocation structures, along with other guidance in that Subtopic that is not industry or transaction specific, to Subtopic 323-10 (and other applicable Subtopics).

The amendments in this proposed Update also would improve the operability of the accounting for investments in complex allocation structures by adding

illustrative examples to Topic 323 that show one possible method that could be used to allocate equity in earnings in those structures.

Additionally, the amendments in this proposed Update would:

1. Require that entities consider the guidance in Topic 323 on complex allocation structures when allocating income to noncontrolling interests under Topic 810, Consolidation
2. Remove the guidance in paragraphs 970-810-25-1 through 25-3 on consolidation of real estate ventures and instead require that entities evaluate investments in the real estate industry for consolidation under Topic 810.

What Are the Transition Requirements?

Issue A: Scope of Topic 323

The transition requirements for Issue A would differ depending on whether, at the date of adoption, an entity elects the measurement alternative in Topic 321, Investments—Equity Securities, (when an equity security does not have a readily determinable fair value) for an investment that is no longer accounted for under the equity method as a result of applying the amendments in this proposed Update.

1. **Investments accounted for under the measurement alternative.** An entity would apply the proposed amendments using a modified prospective approach. Under this approach, an entity would use the carrying amount of its equity method investment on the date of adoption as the new cost basis for that investment under the measurement alternative.
2. **Investments not accounted for under the measurement alternative.** An entity would apply the proposed amendments using a modified retrospective approach. Under this approach, an entity would apply the proposed amendments as of the beginning of the period of adoption and recognize a cumulative-effect adjustment to the opening balance of retained earnings as of the date of adoption. That adjustment would be calculated as the difference, as of the date of adoption, between the carrying amount of the equity method investment and its fair value.

Issue B: Complex Allocation Structures

The amendments in this proposed Update would require that an entity apply the proposed amendments for Issue B to new and existing equity method investments on a prospective basis as of the date of adoption.

When Would the Amendments Be Effective?

The Board will determine the effective date after it considers stakeholder feedback on the amendments in this proposed Update.

Early adoption would be permitted for all entities in an interim or annual reporting period in which financial statements have not been issued or made available for issuance. However, if an entity adopts the amendments in this proposed Update in an interim reporting period, it would be required to adopt them as of the beginning of the annual reporting period that includes that interim reporting period.

Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

Issue A: Scope of Topic 323

Question 1: Would the amendments in this proposed Update improve the accounting for equity method investments by requiring a single threshold (significant influence) for applying the equity method? Would the proposed amendments result in a significant change to how investments in partnerships are accounted for? Is that outcome appropriate? Are the proposed amendments clear and operable? Do you anticipate any operational or auditing challenges? Please explain why or why not.

Question 2: Would the proposed amendments to the evaluation of significant influence improve the operability of evaluating significant influence for investments in partnerships? Please explain.

Question 3: Would the proposed amendments to the evaluation of significant influence significantly change practice for investments in corporations? For example, would removing the presumption that an entity does not have significant influence when it holds less than 20 percent of an investee significantly increase the cost and complexity of applying that guidance to investments in corporations or result in significant changes to the method used to account for those investments? Would the proposed amendments create operational or auditing challenges for those investments? Please explain.

Question 4: The proposed amendments would specify that a noncontrolling general partner or functional equivalent (such as a managing member in a limited liability company) has significant influence. Are you aware of any circumstances where a noncontrolling general partner (or functional equivalent) would not have significant influence? Please explain.

Question 5: Would the proposed amendments to the proportionate consolidation guidance result in investments that currently qualify for proportionate consolidation continuing to qualify under those amendments? Would the proposed amendments result in new investments qualifying for proportionate consolidation that do not currently qualify and why? How significant would those new investments be and would applying proportionate consolidation be a better accounting method for those investments? Please explain.

Question 6: Under current GAAP, tax equity investments that are not accounted for under the proportional amortization method are generally accounted for under the equity method because the investor typically meets the more-than-minor threshold. Would the proposed amendments for Issue A result in significant changes in the method used to account for tax equity investments that are not accounted for under the proportional amortization method? Do you agree with that outcome? Please explain.

Issue B: Complex Allocation Structures

Question 7: Would the proposed amendments improve the accounting for equity method investments with complex allocation structures? Are the

proposed amendments clear and operable? Do you anticipate any operational or auditing challenges? Please explain why or why not.

Question 8: Would the proposed amendments to move the guidance in Subtopic 970-323 that is not industry or transaction specific to Subtopic 323-10 have a significant effect on practice for investments in real estate ventures or non-real-estate entities accounted for under the equity method? Please explain.

Question 9: Would the proposed amendments to Topic 810 improve the accounting for allocating income to noncontrolling interests in complex allocation structures? Are the proposed amendments clear and operable? Do you anticipate any operational or auditing challenges? Please explain why or why not.

Question 10: Would the proposed amendments to remove paragraphs 970-810-25-1 through 25-3 and instead require that entities evaluate investments in the real estate industry for consolidation under Topic 810 have a significant effect on practice? Please explain.

Transition

Question 11: Are the proposed transition requirements clear and operable? If not, why not, and what transition method would be more appropriate and why? Do you anticipate any operational or auditing challenges? Would the proposed transition disclosures be decision useful? Please explain.

Question 12: Would it be preferable to have a single transition method for Issue A? If so, which transition method would be more appropriate (the modified prospective approach or the modified retrospective approach)? Please explain.

Question 13: The proposed transition methods for Issue A assume that investments affected by the proposed amendments for that issue would transition from Topic 323 to Topic 321. Are you aware of any circumstances where an investment currently within the scope of Topic 321 would be within the scope of Topic 323 as a result of applying those proposed amendments? If so, would an approach similar to the modified prospective approach (for example, leveraging existing guidance for a change in accounting method from Topic 321 to Topic 323) or a modified retrospective approach be operable for

those investments? If not, why not, and what transition method would be more appropriate and why? Are you aware of any other changes in the accounting methods applied to investments in partnerships that are currently accounted for under the equity method that could result from the proposed amendments? Please explain.

Question 14: The proposed amendments would expand the use of proportionate consolidation to some investments that are currently not eligible for that method. Would a modified retrospective approach be operable for those investments? If not, why not, and what transition method would be more appropriate and why? Please explain.

Effective Date

Question 15: In evaluating the effective date, how much time would be needed to implement the proposed amendments? Should the effective date for entities other than public business entities be different from the effective date for public business entities? If the effective date(s) should be different, how much additional time would entities other than public business entities need to implement the proposed amendments? Please explain.

Benefits and Costs

Question 16: Would the expected benefits of the proposed amendments justify the expected costs? If not, please describe the nature and magnitude of those costs, differentiating between one-time costs and recurring costs.

Amendments to the *FASB Accounting Standards Codification®*

Summary of Proposed Amendments to the Accounting Standards Codification

1. The following table provides a summary of the proposed amendments to the Accounting Standards Codification. The amendments in this proposed Update are organized by issue and some of the paragraphs are amended by both issues. Each issue only includes the proposed amendments applicable to that issue. The appendix of this proposed Update includes a summary of the paragraphs that were amended by both issues.

Issue	**Paragraphs**
Issue A: Scope of Topic 323	3–17
Issue B: Complex Allocation Structures	18–33

Introduction

2. The Accounting Standards Codification is amended as described in paragraphs 3–33. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Issue A: Scope of Topic 323

Amendments to Master Glossary

3. Add the Master Glossary term *Significant Influence* to Subtopics 954-810 and 958-810 as follows:

Significant Influence

Paragraphs 323-10-15-6 through 15-11 define significant influence.

4. Supersede the Master Glossary term *Investor* from Subtopic 323-30 as follows:

~~**Investor**~~

~~A business entity that holds an investment in voting stock of another entity.~~

Amendments to Subtopic 323-10

5. Amend paragraphs 323-10-05-5, 323-10-15-3, 323-10-15-5 through 15-6, 323-10-15-8, 323-10-15-10, 323-10-35-36 through 35-37, and 323-10-50-3 and add paragraph 323-10-15-6A, with a link to transition paragraph 323-10-65-3, as follows:

Investments—Equity Method and Joint Ventures—Overall

Overview and Background

323-10-05-5 The equity method is~~tends to be~~ most appropriate if an investment enables the investor to significantly influence the operating or financial decisions of the investee. The investor then has a degree of responsibility for the return on its investment, and it is appropriate to include in the results of operations of the investor its share of the earnings or losses of the investee. Influence tends to be more effective as the investor's percent of ownership in the voting stock of the investee increases. Investments of relatively small percentages of voting stock of an investee tend to be passive in nature and enable the investor to have little or no influence on the operations of the investee.

Scope and Scope Exceptions

> Instruments

323-10-15-3 The guidance in the Investments—Equity Method and Joint Ventures Topic applies to investments in **common stock** or **in-substance common stock** (or both common stock and in-substance common stock), including investments in common stock of **corporate joint ventures** (see

paragraphs 323-10-15-13 through 15-19 for guidance on identifying in-substance common stock). Subsequent references in this Subtopic to common stock refer to both common stock and in-substance common stock that give the **investor** the ability to exercise **significant influence** ~~(see paragraph 323-10-15-6)~~ over operating and financial policies of an **investee** even though the investor holds ~~50%~~50 percent or less of the common stock or in-substance common stock (or both common stock and in-substance common stock).

323-10-15-5 The guidance in the Overall Subtopic does not apply to any of the following:

a. An investment in a partnership or unincorporated joint venture (also called an undivided interest in ventures), see Subtopic 323-30
b. An investment in a limited liability company that maintains specific ownership accounts for each investor as discussed in Subtopic 272-10, see Subtopic 323-30.

> Other Considerations

• > Significant Influence

323-10-15-6 Ability to exercise significant influence over operating and financial policies of an investee may be indicated in several ways, including the following:

a. Representation on the board of directors or functionally equivalent governing bodies
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 (but substantial or majority ownership of the voting stock of an investee by another investor does not necessarily preclude the ability to exercise significant influence by the investor).

323-10-15-6A A noncontrolling general partner or functional equivalent (such as a managing member in a limited liability company) has the ability to exercise

significant influence over the operating and financial policies of an investee and, therefore, shall account for its investment using the equity method.

323-10-15-8 An investment (direct or indirect) of 20 percent or more of the voting stock of an investee shall lead to a presumption that in the absence of predominant evidence to the contrary an investor has the ability to exercise significant influence over an investee. ~~Conversely, an investment of less than 20 percent of the voting stock of an investee shall lead to a presumption that an investor does not have the ability to exercise significant influence unless such ability can be demonstrated.~~ The equity method shall not be applied to the investments described in this paragraph insofar as the limitations on the use of the equity method outlined in paragraph 323-10-25-2 would apply to investments other than those in **subsidiaries**.

323-10-15-10 Evidence that an investor owning 20 percent or more of the voting stock of an investee may be unable to exercise significant influence over the investee's operating and financial policies requires an evaluation of all the facts and circumstances relating to the investment. The presumption that the investor has the ability to exercise significant influence over the investee's operating and financial policies stands until overcome by predominant evidence to the contrary. Indicators that an investor may be unable to exercise significant influence over the operating and financial policies of an investee include the following:

a. Opposition by the investee, such as litigation or complaints to governmental regulatory authorities, challenges the investor's ability to exercise significant influence.
b. The investor and investee sign an agreement (such as a **standstill agreement**) under which the investor surrenders significant rights as a shareholder. (Under a standstill agreement, the investor usually agrees not to increase its current holdings. Those agreements are commonly used to compromise disputes if an investee is fighting against a takeover attempt or an increase in an investor's percentage ownership. Depending on their provisions, the agreements may modify an investor's rights or may increase certain rights and restrict others compared with the situation of an investor without such an agreement.)
c. Majority ownership of the investee is concentrated among a small group of shareholders who operate the investee without regard to the views of the investor.

d. The investor needs or wants more financial information to apply the equity method than is available to the investee's other shareholders (for example, the investor wants quarterly financial information from an investee that publicly reports only annually), tries to obtain that information, and fails.
e. The investor tries and fails to obtain representation on the investee's board of directors (or functionally equivalent governing body).

Subsequent Measurement

> Change in Level of Ownership or Degree of Influence

• > Decrease in Level of Ownership or Degree of Influence

323-10-35-36 An investment in voting stock of an investee may fall below the level of ownership described in paragraph 323-10-15-3 from sale of a portion of an investment by the investor, sale of additional stock by an investee, or other transactions, resulting in the investor losing~~and the investor may thereby lose~~ the ability to significantly influence the investee~~policy~~, as described in that paragraph. An investor shall discontinue accruing its share of the earnings or losses of the investee for an investment that no longer qualifies for the equity method. The earnings or losses that relate to the stock retained by the investor and that were previously accrued shall remain as a part of the carrying amount of the investment. The investment account shall not be adjusted retroactively under the conditions described in this paragraph. Upon the discontinuance of the equity method, an investor shall remeasure the retained investment in accordance with paragraph 321-10-35-1 or 321-10-35-2, as applicable. For purposes of applying paragraph 321-10-35-2 to the investor's retained investment, if the investor identifies observable price changes in orderly transactions for the identical or a similar investment of the same issuer that results in it discontinuing the equity method, the entity shall remeasure its retained investment at fair value immediately after discontinuing the equity method. Topic 321 also addresses the subsequent accounting for investments in equity securities that are not consolidated or accounted for under the equity method.

• • > Other Comprehensive Income upon Discontinuation of the Equity Method

323-10-35-37 Paragraph 323-10-35-39 provides guidance on how an investor shall account for its proportionate share of an investee's equity adjustments for other comprehensive income in all of the following circumstances:

a. A loss of significant influence
b. A loss of control that results in accounting for the investment in accordance with Topic 321
c. Subparagraph superseded by Accounting Standards Update No. 202X-XX.~~Discontinuation of the equity method for an investment in a limited partnership because the conditions in paragraph 970-323-25-6 are met for accounting for the investment in accordance with Topic 321.~~

Disclosure

323-10-50-3 All of the following disclosures generally shall apply to the equity method of accounting for investments in common stock:

a. Financial statements of an investor shall disclose all of the following parenthetically, in notes to financial statements, or in separate statements or schedules:
    1. The name of each investee and percentage of ownership of common stock.
    2. The accounting policies of the investor with respect to investments in common stock. Disclosure shall include the names of any significant investee entities in which the investor holds 20 percent or more of the voting stock, but the common stock is not accounted for under~~on~~ the equity method, together with the reasons why the equity method is not considered appropriate~~, and the names of any significant investee corporations in which the investor holds less than 20 percent of the voting stock and the common stock is accounted for on the equity method, together with the reasons why the equity method is considered appropriate~~.
    3. The difference, if any, between the amount at which an investment is carried and the amount of underlying equity in net assets and the accounting treatment of the difference.

[The remainder of this paragraph is not shown here because it is unchanged.]

6. Add paragraph 323-10-65-3 and its related heading as follows:

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 202X-XX, *Investments—Equity Method and Joint Ventures (Topic 323): Equity Method of Accounting—Targeted Improvements*

323-10-65-3 The following represents the transition and effective date information related to Accounting Standards Update No. 202X-XX, *Investments—Equity Method and Joint Ventures (Topic 323): Equity Method of Accounting—Targeted Improvements:*

Effective date and early adoption

a. All entities shall apply the pending content that links to this paragraph for annual reporting periods beginning after [date to be inserted after exposure] and interim reporting periods within those annual reporting periods.
b. Early adoption of the pending content that links to this paragraph is permitted for all entities in an interim or annual reporting period in which financial statements have not been issued or made available for issuance. If an entity adopts the pending content that links to this paragraph in an interim reporting period, it shall apply the pending content as of the beginning of the annual reporting period that includes that interim reporting period.

Transition methods

c. An entity shall apply the pending content that links to this paragraph as follows:
    1. If, on the date of adoption, an entity applies the guidance in paragraph 321-10-35-2 for an investment that no longer qualifies for the equity method under the pending content that links to this paragraph as of the date of adoption, it shall use the carrying amount of its equity method investment as of the date of adoption as the new cost basis for that investment under Topic 321 in accordance with the guidance in paragraphs 323-10-35-35 through 35-39.
    2. If, on the date of adoption, an entity does not apply the guidance in paragraph 321-10-35-2 for an investment that no longer qualifies for the equity method under the pending content that links to this paragraph as of the date of adoption, it shall recognize a cumulative-

effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) as of the date of adoption. The adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) shall be calculated as the difference, as of the date of adoption, between the carrying amount of the equity method investment and its fair value.

Transition disclosures

d. An entity shall disclose the nature of and reason for the change in accounting principle and, if applicable, the cumulative effect of the change on retained earnings (or other components of equity or net assets in the statement of financial position) as of the beginning of the annual reporting period in which the pending content that links to this paragraph is adopted in both the interim reporting period (if applicable) and the annual reporting period of the change.

Amendments to Subtopic 323-30

7. Add paragraph 323-30-15-5, amend paragraphs 323-30-25-1 and 323-30-35-4, and supersede paragraph 323-30-35-3 and its related heading, with a link to transition paragraph 323-10-65-3, as follows:

Investments—Equity Method and Joint Ventures—Partnerships, Joint Ventures, and Limited Liability Entities

Scope and Scope Exceptions

> Transactions

323-30-15-5 An investment in a limited liability company that maintains a specific ownership account for each investor—similar to a partnership capital account structure—shall be viewed as similar to an investment in a limited partnership for purposes of determining whether a noncontrolling investment in a limited liability company shall be accounted for in accordance with the guidance in Subtopic 323-10 or in this Subtopic~~Topic 321 or the equity method~~.
[Content amended as shown and moved from paragraph 323-30-35-3]

Recognition

323-30-25-1 Investors in unincorporated entities such as partnerships and other unincorporated joint ventures ~~generally~~ shall account for their investments using the equity method of accounting by analogy to Subtopic 323-10 if the **{remove glossary link}investor{remove glossary link}** has the ability to exercise **significant influence** over the **investee**. If an investor does not have the ability to exercise significant influence over the investee, it generally shall account for that investment in accordance with Topic 321.

Subsequent Measurement

~~**> Investment in a Limited Liability Company**~~

323-30-35-3 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~An investment in a limited liability company that maintains a specific ownership account for each investor—similar to a partnership capital account structure—shall be viewed as similar to an investment in a limited partnership for purposes of determining whether a noncontrolling investment in a limited liability company shall be accounted for in accordance with the guidance in Topic 321 or the equity method.~~ **[Content amended and moved to paragraph 323-30-15-5]**

> Discontinuance of the Equity Method

323-30-35-4 Paragraph 323-10-35-39 provides guidance on the accounting for an investor's proportionate share of an **investee's** equity adjustments for other comprehensive income upon discontinuance of the equity method ~~for a limited partnership~~ because of a loss of **significant influence**~~the conditions in paragraph 970-323-25-6 are met~~.

Amendments to Subtopic 970-323

8. Supersede paragraph 970-323-25-6, with a link to transition paragraph 323-10-65-3, as follows:

Real Estate—General—Investments—Equity Method and Joint Ventures

Recognition

> Limited Partnerships

970-323-25-6 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~The equity method of accounting for investments in general partnerships is generally appropriate for accounting by limited partners for their investments in limited partnerships. A limited partner's interest may be so minor that the limited partner may have virtually no influence over partnership operating and financial policies. Such a limited partner is, in substance, in the same position with respect to the investment as an investor that owns a minor common stock interest in a corporation, and, accordingly, the limited partner should account for its investment in accordance with Topic 321.~~

Amendments to Subtopic 954-810

9. Amend paragraphs 954-810-15-3(h) through (i) and 954-810-45-1, with a link to transition paragraph 323-10-65-3, as follows:

[Note: Paragraph 954-810-15-3 also is amended in Issue B.]

Health Care Entities—Consolidation

Scope and Scope Exceptions

> Entities

954-810-15-3 If the reporting entity is a not-for-profit business-oriented health care entity, this Subtopic provides consolidation guidance for reporting relationships with other entities in addition to the guidance in the following locations:

h. Except where it elects to report such interests at fair value in accordance with the Fair Value Option Subsections of Subtopic 825-10, a not-for-profit, business-oriented health care entity that owns 50 percent or less of the common voting stock of an investee and can exercise **{add glossary link}**significant influence**{add glossary link}** over operating and financial policies shall apply the guidance in Subtopic 323-10. If the not-for-profit, business-oriented health care entity is unable to exercise significant influence, it generally shall apply the guidance on equity securities in Topic 321.

i. Except where it elects to report such interests at fair value in accordance with the Fair Value Option Subsections of Subtopic 825-10, a not-for-profit, business-oriented health care entity shall report noncontrolling interests in for-profit real estate partnerships, limited liability entities, and similar entities over which the reporting entity has significant influence~~more than a minor interest~~ under the equity method ~~in accordance with the guidance in Subtopic 970-323~~. A not-for-profit, business-oriented health care entity shall apply the guidance in paragraph 970-323-25-2 to determine whether its interest in a for-profit partnership, limited liability entity, or similar entity is a controlling interest or a noncontrolling interest. A not-for-profit, business-oriented health care entity shall apply the guidance in paragraph ~~323-30-35-3~~323-30-15-5 to determine whether a limited liability entity should be viewed as similar to a partnership, as opposed to a corporation, for purposes of determining whether a noncontrolling interest in a limited liability entity or a similar entity over which the reporting entity has significant influence should be accounted for in accordance with ~~Subtopic 970-323 or~~ Subtopic 323-10 or Subtopic 323-30. If the not-for-profit, business-oriented health care entity is unable to exercise significant influence, it generally shall apply the guidance on equity securities in Topic 321.

Other Presentation Matters

954-810-45-1 Whether the financial statements of a reporting health care entity and those of one or more other for-profit entities or not-for-profit entities (NFPs) shall be consolidated, whether those other entities shall be accounted for under~~reported using~~ the equity method or in accordance with Topic 321, and the extent of disclosure that is ~~be~~ required (if any) if consolidated financial statements are not presented, shall be based on the nature of the relationship between the entities. See paragraphs 954-810-15-2 through 15-3.

Amendments to Subtopic 958-810

10. Amend paragraphs 958-810-15-4(c) through (d) and 958-810-55-4, with a link to transition paragraph 323-10-65-3, as follows:

[Note: Paragraph 958-810-15-4 also is amended in Issue B.]

Not-for-Profit Entities—Consolidation

Scope and Scope Exceptions

> Other Considerations

958-810-15-4 Additional guidance for reporting relationships between NFPs and for-profit entities resides in the following locations in the Codification:

c. An NFP that owns 50 percent or less of the voting stock in a for-profit entity shall apply the guidance in Subtopic 323-10 unless the investment is measured at fair value in accordance with applicable GAAP, including the guidance described in (e). If the NFP is unable to exercise **{add glossary link}**significant influence**{add glossary link}**, the NFP generally shall apply the guidance for equity securities in Topic 321.

d. An NFP that is able to exercise significant influence~~with a more than minor noncontrolling interest in~~ over a for-profit real estate partnership, limited liability company, or similar legal entity shall report its noncontrolling interests in such entities using the equity method ~~in accordance with the guidance in Subtopic 970-323~~ unless that interest is reported at fair value in accordance with applicable GAAP, including the guidance described in (e). An NFP shall apply the guidance in paragraph 970-810-25-1 to determine whether its interests in a general partnership are controlling financial interests or noncontrolling interests. An NFP shall apply the guidance in paragraphs 958-810-25-11 through 25-29 and 958-810-55-16A through 55-16I to determine whether its interests in a for-profit limited partnership, limited liability company, or similar legal entity are controlling financial interests or noncontrolling interests. An NFP shall apply the guidance in paragraph ~~323-30-35-3~~323-30-15-5 to determine whether a limited liability company should be viewed as similar to a partnership, as opposed to a corporation, for purposes of determining whether noncontrolling interests in a limited liability company or a similar legal entity over which the reporting entity has significant influence should be accounted for in accordance with ~~Subtopic 970-323 or~~ Subtopic 323-10 or Subtopic 323-30. If the NFP is unable to exercise significant influence, the NFP generally shall apply the guidance on equity securities in Topic 321.

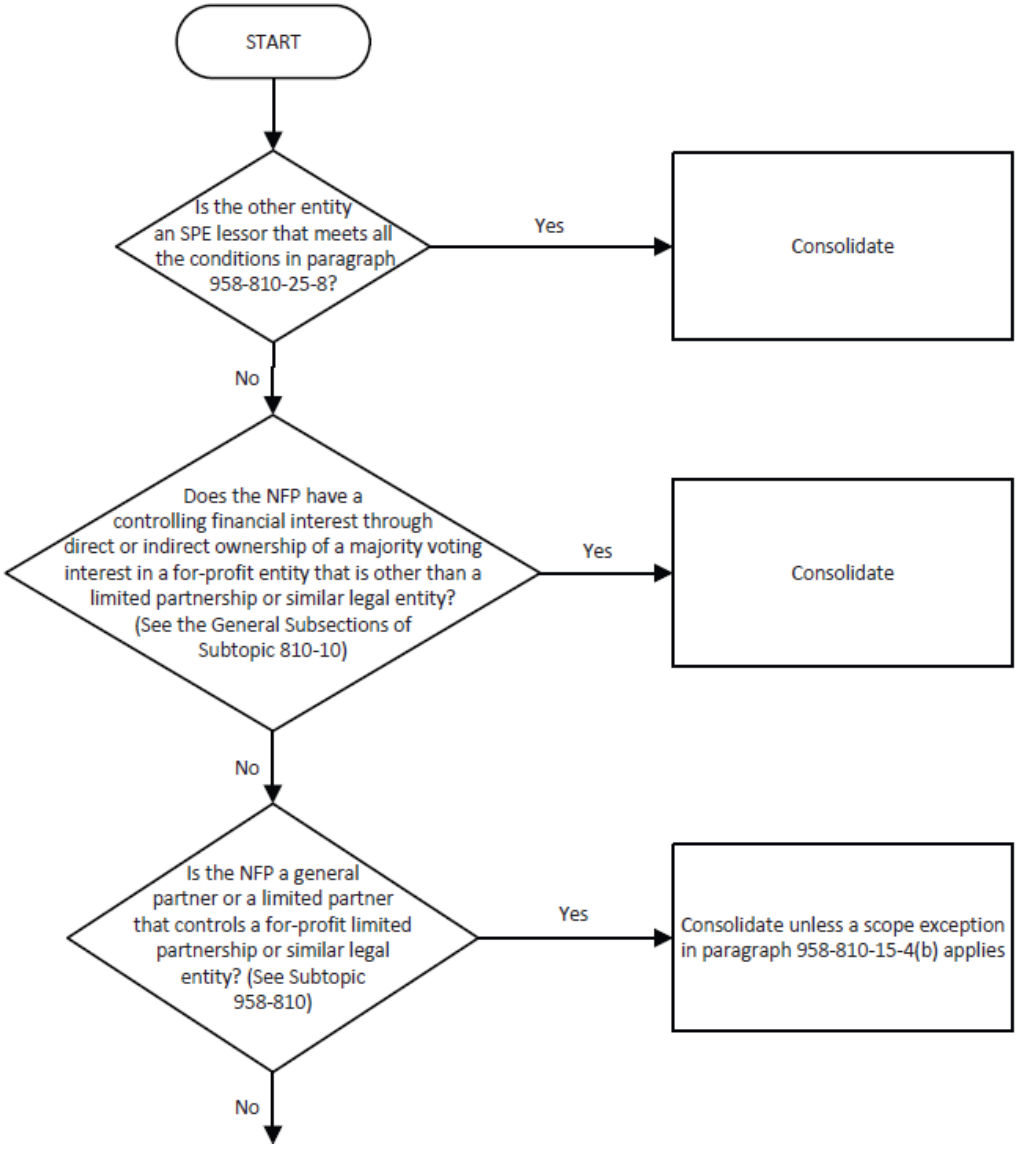
Implementation Guidance and Illustrations

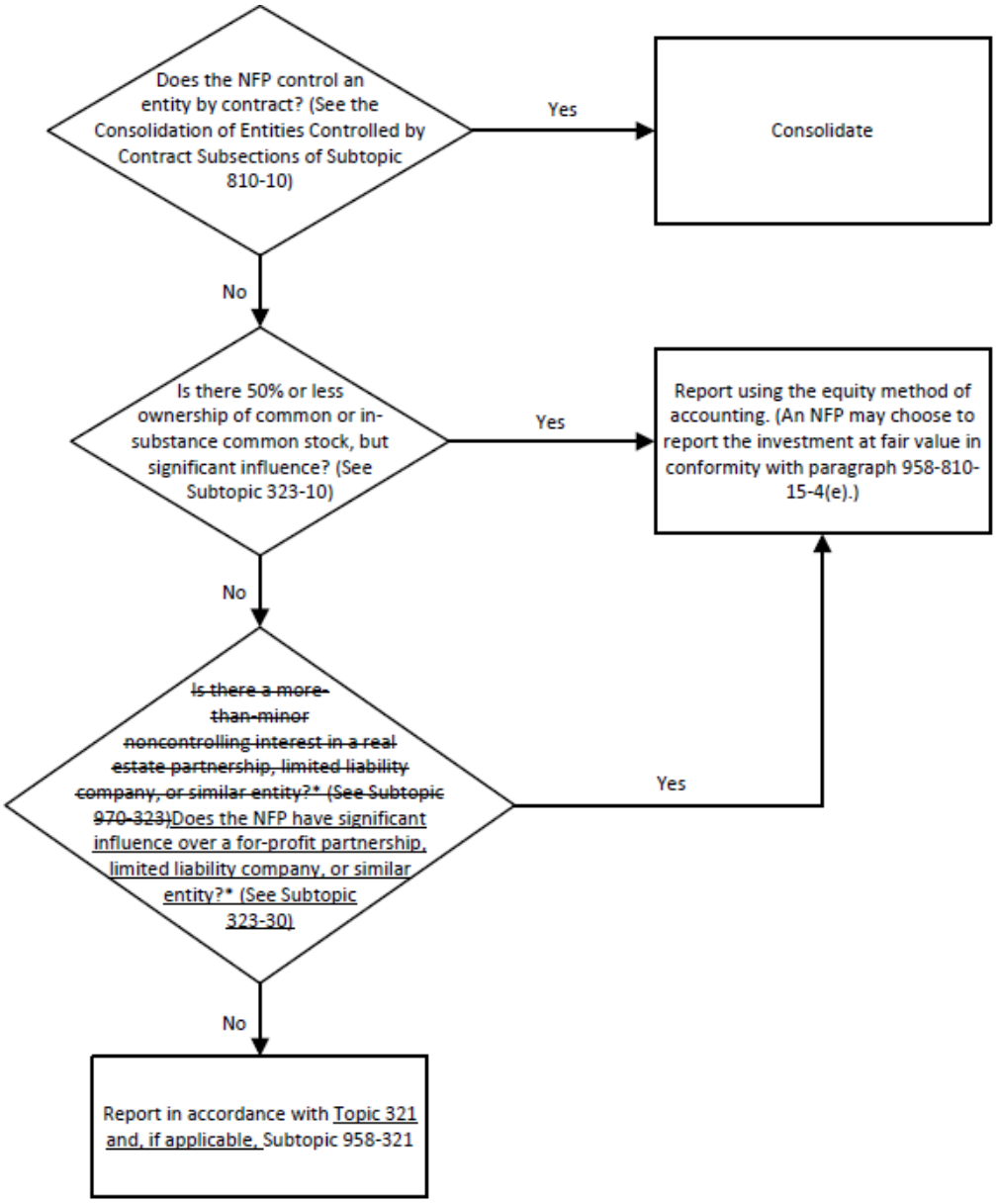
> Implementation Guidance

• > Flowcharts

• • > Relationship with a For-Profit Entity

958-810-55-4 The following flowchart and related footnote indicate the order in which an NFP applies the guidance elsewhere in the Codification to determine the accounting for its relationship with a for-profit entity.





*According to paragraph ~~323-30-35-3~~323-30-15-5, a limited liability company that maintains a specific ownership account for each investor—similar to a partnership capital account structure—should be viewed as similar to an investment in a **limited partnership** for purposes of determining whether a noncontrolling investment in a limited liability company over which the NFP has **significant influence** should be accounted for in accordance with the guidance in Subtopic 323-10 or Subtopic 323-30~~Topic 321 or the equity method~~. For the purposes of

evaluating significant influence, an entity shall use the guidance in paragraphs 323-10-15-6 through 15-11. If the NFP is unable to exercise significant influence, the NFP generally shall apply the guidance on equity securities in Topic 321.

Amendments to Subtopic 974-323

11. Amend paragraph 974-323-25-1, with a link to transition paragraph 323-10-65-3, as follows:

Real Estate—Real Estate Investment Trusts—Investments—Equity Method and Joint Ventures

Recognition

> Service Corporations

974-323-25-1 ~~The existence of some or all of the following factors indicates that the **real estate investment trust** has the ability to exercise at least significant influence over the **service corporation** and that, accordingly, the real estate investment trust should either account for its investment under the equity method or should consolidate the investee.~~

a. Subparagraph superseded by Accounting Standards Update No. 202X-XX.~~The service corporation performs activities primarily for the real estate investment trust.~~
b. Subparagraph superseded by Accounting Standards Update No. 202X-XX.~~Substantially all of the economic benefits in the service corporation flow to the real estate investment trust.~~
c. Subparagraph superseded by Accounting Standards Update No. 202X-XX.~~The real estate investment trust has the ability to designate a seat on the board of directors of the service corporation.~~
d. Subparagraph superseded by Accounting Standards Update No. 202X-XX.~~The real estate investment trust and the service corporation have common board members.~~
e. Subparagraph superseded by Accounting Standards Update No. 202X-XX.~~The real estate investment trust and the service corporation have common officers, employees, or both.~~

f. Subparagraph superseded by Accounting Standards Update No. 202X-XX.~~The owners of the majority voting stock of the service corporation have not contributed substantial equity to the service corporation.~~
g. Subparagraph superseded by Accounting Standards Update No. 202X-XX.~~The views of the real estate investment's management influence the operations of the service corporation.~~
h. Subparagraph superseded by Accounting Standards Update No. 202X-XX.~~The real estate investment trust is able to obtain financial information from the service corporation that is needed to apply the equity method of accounting to its investment in the service corporation.~~

The determination of whether a~~the~~ **{add glossary link}**real estate investment trust**{add glossary link}** should ~~use the equity method of accounting~~account for its investment in a~~the~~ **{add glossary link}**service corporation**{add glossary link}** under the applicable provisions of Topic 810 on consolidation, Topic 323 on investments—equity method and joint ventures, or Topic 321 on investments—equity securities~~or consolidate the service corporation in its financial statements~~ should be based on facts and circumstances.

Amendments to Subtopic 810-10

12. Amend paragraph 810-10-45-14, with a link to transition paragraph 323-10-65-3, as follows:

[Note: Paragraph 810-10-45-14 reflects a change to amend and move content from paragraph 970-323-25-12 to paragraph 970-323-45-2 under Issue B.]

Consolidation—Overall

Other Presentation Matters

> Proportionate Consolidation

810-10-45-14 If the investor-venturer owns an undivided interest in each asset and is proportionately liable for its share of each liability, proportionate gross financial statement presentation may~~the provisions of paragraph 323-10-45-1 may not~~ apply in some industries. For example, in certain industries the investor-venturer may account in its financial statements for its pro rata share of the assets, liabilities, revenues, and expenses of the venture.

Specifically, a proportionate gross financial statement presentation is not appropriate for an unconsolidated equity investment in an unincorporated legal entity ~~accounted for by the equity method of accounting~~ unless the investee is in either the construction industry (see paragraph 910-810-45-1) or an extractive industry (see paragraphs 930-810-45-1 and 932-810-45-1). An entity is in an extractive industry only if its activities are limited to the extraction of mineral resources (such as oil and gas exploration and production) and not if its activities involve related activities such as refining, marketing, or transporting extracted mineral resources. For guidance on proportionate gross financial statement presentation for investments in real property owned by undivided interests, see paragraphs 970-323-45-2 and 970-810-45-1.

Amendments to Subtopic 910-10

13. Amend paragraph 910-10-45-4, with a link to transition paragraph 323-10-65-3, as follows:

Contractors—Construction—Overall

Other Presentation Matters

> Consolidation—Investment in an Unincorporated Legal Entity

910-10-45-4 Paragraph 810-10-45-14 explains that a proportionate gross financial statement presentation is not appropriate for an unconsolidated equity investment in an unincorporated legal entity ~~accounted for by the equity method of accounting~~ unless the investee is in either the construction industry (as discussed in this Topic) or an extractive industry (see paragraphs 930-810-45-1 and 932-810-45-1).

Amendments to Subtopic 910-810

14. Amend paragraph 910-810-45-1, with a link to transition paragraph 323-10-65-3, as follows:

Contractors—Construction—Consolidation

Other Presentation Matters

910-810-45-1 Paragraph 810-10-45-14 explains that a proportionate gross financial statement presentation is not appropriate for an unconsolidated equity investment in an unincorporated legal entity ~~accounted for by the equity method of accounting~~ unless the investee is in either the construction industry (as discussed in this Topic) or an extractive industry (see paragraphs 930-810-45-1 and 932-810-45-1).

Amendments to Subtopic 932-810

15. Amend paragraph 932-810-45-1, with a link to transition paragraph 323-10-65-3, as follows:

Extractive Activities—Oil and Gas—Consolidation

Other Presentation Matters

> Proportionate Consolidation

932-810-45-1 Paragraph 810-10-45-14 explains that a proportionate gross financial statement presentation is not appropriate for an unconsolidated equity investment in an unincorporated legal entity ~~accounted for by the equity method of accounting~~ unless the investee is in either the construction industry or an extractive industry (as discussed in this Topic and paragraph 930-810-45-1). As indicated in that paragraph, an entity is in an extractive industry only if its activities are limited to the extraction of mineral resources (such as oil and gas **exploration** and **production**) and not if its activities involve related activities such as refining, marketing, or transporting extracted mineral resources.

Amendments to Subtopic 930-810

16. Amend paragraph 930-810-45-1, with a link to transition paragraph 323-10-65-3, as follows:

Extractive Activities—Mining—Consolidation

Other Presentation Matters

> Proportionate Consolidation

930-810-45-1 Paragraph 810-10-45-14 explains that a proportionate gross financial statement presentation is not appropriate for an unconsolidated equity investment in an unincorporated legal entity ~~accounted for by the equity method of accounting~~ unless the investee is in either the construction industry (see paragraph 910-810-45-1) or an extractive industry (as discussed in this Topic and paragraph 932-810-45-1). As indicated in that paragraph, an entity is in an extractive industry only if its activities are limited to the extraction of mineral resources (such as oil and gas exploration and production) and not if its activities involve related activities such as refining, marketing, or transporting extracted mineral resources.

Amendments to Subtopic 740-323

17. Amend paragraph 740-323-05-1 and add paragraph 740-323-15-1B, with a link to transition paragraph 323-10-65-3, as follows:

Income Taxes—Investments—Equity Method and Joint Ventures

Overview and Background

Proportional Amortization Method

740-323-05-1 This Subtopic contains standalone guidance on the use of the proportional amortization method to investments made primarily for the purpose of receiving income tax credits and other income tax benefits. Income tax accounting guidance on other types of unconsolidated equity investments~~equity method investments and joint ventures~~ is contained in Subtopics 740-10 and 740-30.

Scope and Scope Exceptions

Proportional Amortization Method

> Overall Guidance

740-323-15-1B For purposes of evaluating how to account for an unconsolidated equity investment that generates income tax credits and other income tax benefits, an entity shall first apply the requirements in this Subtopic, including determining whether to elect the proportional amortization method,

before evaluating how to account for that investment under other generally accepted accounting principles.

Issue B: Complex Allocation Structures

Amendments to Master Glossary

18. Supersede the following Master Glossary terms from Subtopic 970-323 as follows:

~~**Kick-Out Rights (Voting Interest Entity Definition)**~~

~~The rights underlying the limited partner's or partners' ability to dissolve (liquidate) the limited partnership or otherwise remove the general partners without cause.~~

~~**Noncontrolling Interest**~~

~~The portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent. A noncontrolling interest is sometimes called a minority interest.~~

~~**Syndication Activities**~~

~~Efforts to directly or indirectly sponsor the formation of entities that acquire interests in real estate by raising funds from investors. As consideration for their investments, the investors receive ownership or other financial interests in the sponsored entities. All general partners in syndicated partnerships are deemed to perform syndication activities.~~

19. Amend the Master Glossary term *Syndication Activities*, with a link to transition paragraph 323-10-65-4, as follows:

Syndication Activities

Efforts to directly or indirectly sponsor the formation of entities that acquire interests ~~in real estate~~ by raising funds from investors. As consideration for their investments, the investors receive ownership or other financial interests in the sponsored entities. All general partners in syndicated partnerships are deemed to perform syndication activities.

20. Add the Master Glossary term *Syndication Activities* to Subtopic 323-10 as follows:

Syndication Activities

Efforts to directly or indirectly sponsor the formation of entities that acquire interests by raising funds from investors. As consideration for their investments, the investors receive ownership or other financial interests in the sponsored entities. All general partners in syndicated partnerships are deemed to perform syndication activities.

Amendments to Subtopic 323-10

21. Amend paragraphs 323-10-05-6, 323-10-35-4, 323-10-35-20 through 35-21, and 323-10-35-32 and add paragraphs 323-10-30-2C and its related heading, 323-10-35-4A through 35-4C and their related heading, 323-10-35-12A, 323-10-35-17A, 323-10-35-20A through 35-20D, 323-10-40-2 and its related heading, and 323-10-55-58 through 55-71 and their related headings, with a link to transition paragraph 323-10-65-4, as follows:

Investments—Equity Method and Joint Ventures—Overall

Overview and Background

323-10-05-6 In addition to the ~~joint venture~~ guidance included in this Topic, specific~~the~~ accounting and reporting requirements for investments in real estate ventures~~for real estate joint ventures is~~ are addressed in Subtopic 970-323.

Initial Measurement

> The Equity Method—Overall Guidance

• > Contribution of Services ~~or Intangibles~~

323-10-30-2C ~~The contribution of real property or an intangible to a partnership or joint venture shall be accounted for in accordance with Subtopic 610-20.~~ The contribution of services or ~~real estate~~ **syndication activities** in which the syndicators receive or retain ownership~~partnership~~ interests are accounted for in accordance with the guidance in Topic 606 on revenue from contracts with

customers. **[Content amended as shown and moved from paragraph 970-323-30-6]**

Subsequent Measurement

> The Equity Method—Overall Guidance

323-10-35-4 Under the equity method, an investor shall recognize its share of the **earnings or losses of an investee** in the periods for which they are reported by the investee in its financial statements rather than in the period in which an investee declares a dividend. An investor shall adjust the carrying amount of an investment for its share of the earnings or losses of the investee after the date of investment and shall report the recognized earnings or losses in income. An investor's share of the earnings or losses of an investee shall be based on the shares of common stock and in-substance common stock held by that investor, unless the guidance in paragraphs 323-10-35-4A through 35-4C applies. (See paragraphs 323-10-15-13 through 15-19 for guidance on identifying in-substance common stock. Subsequent references in this Section to common stock refer to both common stock and in-substance common stock.)

• > Complex Allocation Structures

323-10-35-4A ~~Venture agreements~~Agreements may designate different allocations among the investors for any of the following:

a. Profits and losses
b. Specified costs and expenses
c. Distributions of cash from operations
d. Distributions of cash proceeds from liquidation.

[Content amended as shown and moved from paragraph 970-323-35-16]

323-10-35-4B 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 investee's~~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~~323-10-35-20D. To determine the investor's share of investee~~venture~~ net income or loss, such agreements or arrangements shall be analyzed to determine how an increase or decrease in net assets of the investee~~venture~~ (determined in conformity with GAAP) will affect cash payments to the investor

over the life of the investee~~venture~~ and on its liquidation. Specified profit and loss allocation ratios shall not be used to determine an investor's equity in investee~~venture~~ earnings if the allocation of cash distributions and liquidating distributions are determined on some other basis. For example, if an~~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. **[Content amended as shown and moved from paragraph 970-323-35-17]**

323-10-35-4C Case A and Case B in Example 6 (see paragraphs 323-10-55-58 through 55-71) illustrate one possible method that could be used to apply the guidance in paragraphs 323-10-35-4A through 35-4B.

• > Intra-Entity Gains and Losses

323-10-35-12A An investor shall not record as income its equity in the investee's~~venture's~~ profit from a sale of nonfinancial assets (for example, real estate)~~real estate~~ to that investor; the investor's share of such profit shall be recorded as a reduction in the carrying amount of the purchased nonfinancial asset~~real estate~~ and recognized as income on a pro rata basis as the nonfinancial asset~~real estate~~ is depreciated or when it is sold to a third party. Similarly, if an investee~~a venture~~ performs services for an investor and the cost of those services is capitalized by the investor, the investor's share of the investee's~~venture's~~ profit in the transaction shall be recorded as a reduction in the carrying amount of the capitalized cost. **[Content amended as shown and moved from paragraph 970-323-30-7]**

• > Investee Capital Transactions

323-10-35-17A Interest on loans and advances that are in substance capital contributions (for example, if all the investors are required to make loans and advances proportionate to their equity interests) shall be accounted for as distributions rather than as interest income by the investors. **[Content moved from paragraph 970-323-35-22]**

> Equity Method Losses

323-10-35-20 The investor ordinarily shall discontinue applying the equity method if the investment (and net advances) is reduced to zero and shall not provide for additional losses unless the investor has guaranteed obligations of the investee or is otherwise committed to provide further financial support for the investee. An investor ~~in a real estate venture~~ shall report its recorded share of losses in excess of its investment, including loans and advances, as a liability in its financial statements. **[Content amended as shown and moved from paragraph 970-323-35-6]**

323-10-35-20A The following are examples of such circumstances:

a. The investor has a legal obligation as a guarantor or noncontrolling general partner (or functional equivalent).
b. The investor has indicated a commitment, based on considerations such as business reputation, intra-entity relationships, or credit standing, to provide additional financial support. Such a commitment might be indicated by previous support provided by the investor or statements by the investor to other investors or third parties of the investor's intention to provide support.

[Content amended as shown and moved from paragraph 970-323-35-4]

323-10-35-20B If it is probable that one or more investors cannot bear their share of losses, the remaining investors shall record their proportionate shares of an investee's~~venture~~ losses otherwise allocable to investors considered unable to bear their share of losses. **[Content amended as shown and moved from paragraph 970-323-35-8]**

323-10-35-20C When the investee~~venture~~ subsequently reports income, those remaining investors shall record their proportionate share of the investee's~~venture's~~ net income otherwise allocable to investors considered unable to bear their share of losses until such income equals the excess losses they previously recorded. An investor who is deemed by other investors to be unable to bear its share of losses shall continue to record its contractual share of losses unless it is relieved from the obligation to make payment by agreement or operation of law. **[Content amended as shown and moved from paragraph 970-323-35-9]**

323-10-35-20D The accounting by an investor for losses otherwise allocable to other investors shall be governed by the provisions of Subtopic 450-20 relating to loss contingencies. Accordingly, the investor shall record a proportionate

share of the losses otherwise allocable to other investors if it is probable that they will not bear their share. In this connection, each investor shall look primarily to the fair value of the other investors' interests in the investeeventure and the extent to which the investee'sventure's debt is nonrecourse in evaluating their ability and willingness to bear their allocable share of losses. An investor may not be able to apply the general rule to an investment in an **undivided interest** because the extent to which the interests of other investors are encumbered by liens may not be known. However, there may be satisfactory alternative evidence of an ability and willingness of other investors to bear their allocable share of losses. Such evidence might be, for example, that those investors previously made loans or contributions to support cash deficits, possess satisfactory financial standing (as may be evidenced by satisfactory credit ratings), or have provided adequately collateralized guarantees. **[Content amended as shown and moved from paragraph 970-323-35-10]**

323-10-35-21 An investor shall, however, provide for additional losses if the imminent return to profitable operations by an investee appears to be assured. For example, a material, nonrecurring loss of an isolated nature or start-up losses may reduce an investment below zero even though the underlying profitable operating pattern of an investee is unimpaired.

> Decrease in Investment Value

323-10-35-32 A loss in value of an investment that is other than a temporary decline shall be recognized. Evidence of a loss in value might include, but would not necessarily be limited to, absence of an ability to recover the carrying amount of the investment orinvestment, inability of the investee to sustain an earnings capacity that would justify the carrying amount of the investment, or investment. A loss in value of an investment other than a temporary decline shall be recognized. Such a loss in value may be indicated, for example, by a decision by other investors to cease providing support or reduce their financial commitment to the investeeventure. **[Content amended as shown and moved from paragraph 970-323-35-12]** A current fair value of an investment that is less than its carrying amount may indicate a loss in value of the investment. However, a decline in the quoted market price below the carrying amount or the existence of operating losses is not necessarily indicative of a loss in value that is other than temporary. All are factors that shall be evaluated.

Derecognition

> Accounting for Sales of Equity Method Investments

323-10-40-2 ~~A sale of an investment in a consolidated **real estate venture** (including the sale of stock in a corporate real estate venture) shall be evaluated under the guidelines set forth in paragraphs 360-10-40-3A through 40-3B.~~ The sale of an equity method investment~~a noncontrolling investment in a real estate venture that is being accounted for in accordance with Topic 320 on investments—debt securities; Topic 321 on investments—equity securities; Topic 323 on investments—equity method and joint ventures; or Topic 325 on investments—other,~~ shall be accounted for in accordance with the guidance in Topic 860 on transfers and servicing, unless a scope exception from Topic 860 applies. **[Content amended as shown and moved from paragraph 970-323-40-1]**

Implementation Guidance and Illustrations

> Illustrations

• > Example 6: Complex Allocation Structures

323-10-55-58 The following Cases illustrate one possible method that an entity could use to determine how an increase or decrease in net assets of an investee would affect cash payments to the investor over the life of the investee and on its liquidation in accordance with paragraphs 323-10-35-4A through 35-4B. The methodology illustrated in each Case may not be the only way that the guidance could be applied, and in some cases other methodologies may better reflect the substance of the complex allocation structure. Although some aspects of the Cases may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying the guidance in this Topic.

a. Complex Allocation Structure without Basis Differences (Case A)
b. Complex Allocation Structure with Basis Differences (Case B).

• • > Case A: Complex Allocation Structure without Basis Differences

323-10-55-59 Investee was formed as a limited partnership on January 1, 20X1, by two unrelated investors. Investor A acquired 100 percent of the limited

partner interests for $200 and 50 percent of the general partner interests for $25. Investor B acquired the remaining 50 percent of the general partner interests for $25. Assume neither Investor A nor Investor B consolidates Investee. Both Investor A and Investor B have the ability to exercise significant influence over Investee and apply the equity method.

323-10-55-60 Investor A has certain preferential rights because of its limited partner interest. Regarding the general partner interests, Investors A and B have the same rights. Upon liquidation, Investor A is entitled to a return of its initial capital investment of $200, plus a cumulative annual return of 10 percent on any unreturned initial capital investment at year-end (for example, assuming no initial capital is returned from 20X1 through 20X3, Investor A is entitled to an annual return of $20 in 20X1, $40 in 20X2, $60 in 20X3, and so forth). Distributions from Investee during operations are paid to Investor A until all of Investor A's initial capital investment has been returned. Thereafter, distributions are paid to Investor A to reduce the unpaid cumulative annual return. After Investor A has received those amounts, the remaining distributions are allocated to the general partners' interests on a pro rata basis using ownership interests.

323-10-55-61 There were no changes in ownership interests and no additional contributions from investors from January 1, 20X1, through December 31, 20X3. Investee made distributions to Investor A of $80 and $40 in the years ended December 31, 20X2, and December 31, 20X3, respectively. Those distributions reduced Investor A's unreturned initial capital investment. Basis differences, intra-entity transactions, and income tax effects have been ignored to simplify this illustration.

323-10-55-62 Information related to Investee's net asset value, net income (losses), and distributions for years 20X1 through 20X3 is as follows.

[For ease of readability, the new illustration is not underlined.]

	1/1/X1	12/31/X1	12/31/X2	12/31/X3
Net assets	$ 250	$ 240	$ 280	$ 450
Net income (losses)	$ -	$ (10)	$ 120	$ 210
Distributions to Investor A	$ -	$ -	$ 80	$ 40

323-10-55-63 Based on the Investee's net assets and the terms of the complex allocation structure, the investors' claims to net assets at book value of Investee are as follows.

[For ease of readability, the new illustration is not underlined.]

	1/1/X1	12/31/X1	12/31/X2	12/31/X3
Net assets of Investee[(a)]	$ 250	$ 240	$ 280	$ 450
Investor A unreturned initial capital investment[(b)]	200	200	120	80
Cumulative annual return to Investor A[(c)]	-	20	32	40
Remaining net assets to allocate[(d)]	50	20	128	330
Pro rata to Investor A[(e)]	25	10	64	165
Pro rata to Investor B[(f)]	25	10	64	165
Investor A's claim to net assets[(g)]	$ 225	$ 230	$ 216	$ 285
Investor B's claim to net assets[(h)]	$ 25	$ 10	$ 64	$ 165

(a) Net asset value of Investee as determined in accordance with generally accepted accounting principles (GAAP)
(b) Initial capital investment made by Investor A for its limited partner interests less cumulative distributions received by Investor A applied against that investment
(c) Row (b) × 10 percent + unreturned annual return in prior periods
(d) Row (a) – Row (b) – Row (c)
(e) Row (d) × 50 percent
(f) Row (d) × 50 percent
(g) Row (b) + Row (c) + Row (e)
(h) Row (f)

323-10-55-64 On the basis of their claims to Investee's net assets at book value, Investor A and Investor B recognize equity in earnings from Investee as follows.

[For ease of readability, the new illustration is not underlined.]

Investor A	20X1	20X2	20X3
Claim to net assets at the end of the reporting period	$ 230	$ 216	$ 285
Plus: Cash distributions	-	80	40
Less: Investor contributions	-	-	-
Less: Claim to net assets at the beginning of the reporting period	(225)	(230)	(216)
Share of Investee net income (losses)	$ 5	$ 66	$ 109

Investor B	20X1	20X2	20X3
Claim to net assets at the end of the reporting period	$ 10	$ 64	$ 165
Plus: Cash distributions	-	-	-
Less: Investor contributions	-	-	-
Less: Claim to net assets at the beginning of the reporting period	(25)	(10)	(64)
Share of Investee net income (losses)	$ (15)	$ 54	$ 101

• • > Case B: Complex Allocation Structure with Basis Differences

323-10-55-65 Investee is a corporation with three shareholders: Investor A, Investor B, and Investor C. Investor A holds all the Class A shares, which represent 20 percent of the voting stock of Investee. Investor B and Investor C each hold 50 percent of the Class B shares, which together represent the remaining 80 percent of the voting stock of Investee. In accordance with the complex allocation structure of Investee, the profits and losses of Investee are allocated to all shareholders on a pro rata basis using voting rights after the Class A shareholders have received a return of their initial capital investment ($200).

323-10-55-66 On January 1, 20X1, Investee's balance sheet is as follows.

[For ease of readability, the new illustration is not underlined.]

Cash	$ 12,000
Real estate	6,000
Loan	(2,000)
	$ 16,000

323-10-55-67 On January 1, 20X1, Investor D (the reporting entity) acquires all of Investor C's Class B shares for $7,000. At that date, Investor D determines that its basis difference (the difference between the cost of its investment and Investor D's equity in net assets of Investee at the date of investment) is entirely attributable to the real estate that has a 10-year remaining useful life. Assume that Investor D does not consolidate Investee. Investor D has the ability to exercise significant influence over Investee and applies the equity method.

323-10-55-68 During the year ended December 31, 20X1, Investee had income before depreciation of $2,000 and depreciation of $600, resulting in net income of $1,400. Investee's balance sheet on December 31, 20X1, is as follows.

[For ease of readability, the new illustration is not underlined.]

Cash	$ 14,000
Real estate	5,400
Loan	(2,000)
	$ 17,400

323-10-55-69 There have not been any other changes in ownership interests, and there were no additional contributions from, or distributions to, investors

from January 1, 20X1, through December 31, 20X1. Intra-entity transactions and the effect of income taxes have been ignored to simplify this Illustration.

323-10-55-70 Based on Investee's net assets and the terms of the complex allocation structure, the investors' claim to net assets at book value is as follows.

[For ease of readability, the new illustration is not underlined.]

	1/1/X1	12/31/X1
Net assets of Investee[(a)]	$ 16,000	$ 17,400
Investor A unreturned intiial capital investment[(b)]	200	200
Remaining net assets to allocate[(c)]	15,800	17,200
Pro rata to Investor A[(d)]	$ 3,160	$ 3,440
Pro rata to Investor B[(e)]	$ 6,320	$ 6,880
Pro rata to Investor D[(f)]	$ 6,320	$ 6,880
Investor A's claim to net assets[(g)]	$ 3,360	$ 3,640
Investor B's claim to net assets[(h)]	$ 6,320	$ 6,880
Investor D's claim to net assets[(i)]	$ 6,320	$ 6,880

(a) Net asset value of Investee as determined in accordance with GAAP
(b) Initial capital investment made by Investor A
(c) Row (a) - Row (b)
(d) Row (c) × 20 percent
(e) Row (c) × 40 percent
(f) Row (c) × 40 percent
(g) Row (b) + Row (d)
(h) Row (e)
(i) Row (f)

323-10-55-71 On the basis of Investor D's claim to net assets at book value, Investor D recognizes equity in earnings from Investee as follows.

[For ease of readability, the new illustration is not underlined.]

	20X1
Claim to net assets at the end of the reporting period	$ 6,880
Plus: Cash distributions	-
Less: Investor contributions	-
Less: Amortization of basis differences[(a)]	(68)
Less: Claim to net assets at the beginning of the reporting period	(6,320)
Share of Investee net income (losses)	$ 492

(a) The total basis difference is $680, calculated as the difference between the cost of the investment ($7,000) and Investor D's equity in net assets of Investee at the date of investment ($6,320). Because Investor D determined that this basis difference is entirely attributable to the real estate, it is amortized over the useful life of the real estate (10 years).

22. Add paragraph 323-10-65-4 and its related heading as follows:

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 202X-XX, *Investments—Equity Method and Joint Ventures (Topic 323): Equity Method of Accounting—Targeted Improvements*

323-10-65-4 The following represents the transition and effective date information related to Accounting Standards Update No. 202X-XX, *Investments—Equity Method and Joint Ventures (Topic 323): Equity Method of Accounting—Targeted Improvements*:

Effective date and early adoption

a. All entities shall apply the pending content that links to this paragraph for annual reporting periods beginning after [date to be inserted after exposure] and interim reporting periods within those annual reporting periods.
b. Early adoption of the pending content that links to this paragraph is permitted for all entities in interim or annual reporting periods in which financial statements have not yet been issued or made available for issuance. If an entity adopts the pending content that links to this paragraph in an interim reporting period, it shall apply that pending content as of the beginning of the annual reporting period that includes that interim reporting period.

Transition method

c. An entity shall apply the pending content that links to this paragraph to new and existing investments on a prospective basis beginning on or after the date of adoption.

Transition disclosures

d. An entity shall disclose the nature of and reason for the change in accounting principle in both the interim reporting period (if applicable) and the annual reporting period in which the entity adopts the pending content that links to this paragraph.

Amendments to Subtopic 323-30

23. Add Section 323-30-45 and supersede paragraph 323-30-60-3 and its related heading, with a link to transition paragraph 323-10-65-4, as follows:

Investments—Equity Method and Joint Ventures— Partnerships, Joint Ventures, and Limited Liability Entities

Other Presentation Matters

General

323-30-45-1 ~~An entity shall apply the one-line equity method of presentation in both the balance sheet and the statement of income. Pro rata consolidation~~Proportionate gross financial statement presentation is not appropriate except in the limited circumstances described in paragraph 810-10-45-14. ~~Topic 323 shall be used as a guide in applying the equity method.~~ **[Content amended as shown and moved from paragraph 970-323-25-4]**

Relationships

~~**> Real Estate—General**~~

323-30-60-3 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~For guidance on an investment in real estate or real estate development projects in a form that otherwise would be within the scope of this Subtopic, see Subtopic 970-323.~~

Amendments to Subtopic 970-323

24. Amend paragraphs 970-323-05-1, 970-323-05-3, 970-323-05-5, 970-323-25-13, and 970-323-35-8 and its related heading, add paragraphs 970-323-25-1 and 970-323-45-2, and supersede paragraphs 970-323-25-2 through 25-5 and their related headings, 970-323-25-8 through 25-12 and their related headings, 970-323-30-1 through 30-3 and their related headings, 970-323-30-6 through 30-7 and their related headings, 970-323-35-1 through 35-7, 970-323-35-9 through 35-18 and their related headings, 970-323-35-20 through 35-22 and their related heading, 970-323-40-1 and its related heading, and 970-323-45-1, with a link to transition paragraph 323-10-65-4, as follows:

Real Estate—General—Investments—Equity Method and Joint Ventures

Overview and Background

970-323-05-1 This Subtopic provides accounting guidance on various forms of real estate ownership. ~~In addition it addresses investor accounting for certain transactions with a **real estate venture**.~~

970-323-05-2 Ownership of real estate or real estate development projects by two or more entities may take several forms. The most common forms are a **corporate joint venture**, a **general partnership**, a **limited partnership**, or an **undivided interest**.

970-323-05-3 In this Subtopic, the terms venture and **{add glossary link}** real estate venture**{add glossary link}** apply to all of these ownership arrangements described ~~above~~in paragraph 970-323-05-2. These forms of ownership differ in legal form and economic substance.

970-323-05-4 See Subtopic 323-740 for guidance on the use of the proportional amortization method to investments made primarily for the purpose of receiving income tax credits and other income tax benefits.

970-323-05-5 The Acquisition, Development, and Construction Subsection of Section 310-10-15 addresses **acquisition, development, and construction arrangements** in which the lender participates in expected residual profit. The Acquisition, Development, and Construction Subsection of Section 310-10-25 provides criteria for distinguishing between such arrangements that shall be

accounted for as loans or real estate joint ventures, and provides accounting guidance for circumstances in which such arrangements are required to be accounted for as real estate joint ventures. See paragraph 970-323-25-1 for guidance on accounting for an investment in a real estate venture.

Scope and Scope Exceptions

> Overall Guidance

970-323-15-1 This Subtopic follows the same Scope and Scope Exceptions as outlined in the Overall Subtopic, see Section 970-10-15, with specific entity exceptions noted below.

> Entities

970-323-15-2 The guidance in this Subtopic does not apply to the following entities:

a. Regulated investment entities and other entities that are required to account for investments at fair value.

970-323-15-3 See Sections 946-10-15 and 946-323-15 for applicability to unincorporated joint ventures and non-regulated investment entities.

Recognition

970-323-25-1 ~~Paragraph not used.~~An entity shall account for an investment in a **real estate venture** under the applicable provisions of Topic 810 on consolidation, Subtopic 323-10, Subtopic 323-30, or Topic 321 on investments—equity securities. For additional guidance on **undivided interests**, see paragraph 970-323-45-2.

~~> General Partnerships~~

970-323-25-2 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~Paragraph 970-810-25-2 states that a noncontrolling investor in a **general partnership** shall account for its investment by the equity method and should be guided by the provisions of Topic 323.~~

970-323-25-3 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~Many provisions of Topic 323 are appropriate in accounting for~~

~~investments in certain unincorporated entities. The principal difference, aside from income tax considerations, between corporate joint ventures and general partnerships is that the individual investors in general partnerships usually assume joint and several liability. The equity method, however, enables noncontrolling investors in general partnerships to reflect the underlying nature of their investments in those ventures as well as it does for investors in corporate joint ventures. Accordingly, investments in noncontrolled real estate general partnerships shall be accounted for and reported under the equity method.~~

970-323-25-4 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~An entity shall apply the one-line equity method of presentation in both the balance sheet and the statement of income. Pro rata consolidation is not appropriate except in the limited circumstances described in paragraph 810-10-45-14. Topic 323 shall be used as a guide in applying the equity method.~~ **[Content amended and moved to paragraph 323-30-45-1]**

~~**> Limited Partnerships**~~

970-323-25-5 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~For guidance on determining whether a general partner or a limited partner shall consolidate a **limited partnership** or apply the equity method of accounting to its interests in the limited partnership, see paragraph 970-810-25-3.~~

[Note: Paragraph 970-323-25-6 is superseded in Issue A.]

970-323-25-7 Paragraph superseded by Accounting Standards Update No. 2016-01.

970-323-25-8 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~If the substance of the partnership arrangement is such that the general partners are not in control of the major operating and financial policies of the partnership, a limited partner may be in control. An example could be a limited partner holding over 50 percent of the limited partnership's **kick-out rights** through voting interests in accordance with paragraph 810-10-15-8A. A controlling limited partner shall be guided in accounting for its investment by the principles for investments in subsidiaries in Topic 810 on consolidation. Noncontrolling limited partners shall account for their investments by the equity method and shall be guided by the provisions of Topic 323, as discussed in the~~

~~guidance beginning in paragraph 970-323-25-5, or by the guidance in Topic 321.~~

~~**> Corporate Joint Ventures**~~

970-323-25-9 Paragraph superseded by Accounting Standards Update No. 202X-XX. ~~Topic 323 provides the standards for use of the equity method for **corporate joint ventures** and includes guidance for applying that method in the financial statements of the investor. That Topic applies to corporate joint ventures created to own or operate real estate projects.~~

970-323-25-10 Paragraph superseded by Accounting Standards Update No. 202X-XX. ~~Accordingly, an investment in a corporate subsidiary that is a **real estate venture** shall be accounted for by the investor-parent using the principles applicable to investments in subsidiaries rather than those applicable to investments in corporate joint ventures.~~

970-323-25-11 Paragraph superseded by Accounting Standards Update No. 202X-XX. ~~Noncontrolling shareholders in such a real estate venture shall account for their investment using the principles applicable to investments in common stock set forth in Topic 321 or 323.~~

~~**> Undivided Interests**~~

970-323-25-12 Paragraph superseded by Accounting Standards Update No. 202X-XX. ~~If real property owned by undivided interests is subject to **joint control** by the owners, the investor-venturers shall not present their investments by accounting for their pro rata share of the assets, liabilities, revenues, and expenses of the ventures. Most real estate ventures with ownership in the form of undivided interests are subject to some level of joint control. Accordingly, such investments shall be presented in the same manner as investments in noncontrolled partnerships.~~ **[Content amended and moved to paragraph 970-323-45-2]**

> Acquisition, Development, and Construction Arrangements

970-323-25-13 See the Acquisition, Development, and Construction Subsection of Section 310-10-25 for a discussion of when **acquisition, development, and construction arrangements** are required to be accounted for as a real estate joint venture rather than a loan and paragraph 970-323-25-

1 for guidance on accounting for an investment in a real estate venture. In those circumstances, the Acquisition, Development, and Construction Subsection of Section 310-10-35, and the Acquisition, Development, and Construction Subsection of Section 310-10-40 provide further guidance for accounting for such arrangements.

Initial Measurement

> Accounting by the Investor for Certain Transactions with a Real Estate Venture

970-323-30-1 Paragraph superseded by Accounting Standards Update No. 202X-XX. The guidance in this Section applies to investments accounted for by the equity method.

• > Contribution of Cash

970-323-30-2 Paragraph superseded by Accounting Standards Update No. 202X-XX. If all investors contribute cash at the formation of the **real estate venture**, each investor shall record its investment at the amount of the cash contributed.

• > Contribution of Real Estate

970-323-30-3 Paragraph superseded by Accounting Standards Update No. 202X-XX. An investor that contributes real estate to the capital of a real estate venture generally should record its investment in the venture at fair value when the real estate is derecognized, regardless of whether the other investors contribute cash, property, or services. The transaction shall be accounted for in accordance with the guidance in paragraphs 360-10-40-3A through 40-3C. Some transactions are sales of an ownership interest that result in an entity being an investor in a real estate venture. An example of such a transaction includes one in which investor A contributes real estate with a fair value of $2,000 to a venture and investor B contributes cash in the amount of $1,000. The real estate is not considered a business or nonprofit activity and, therefore, is within the scope of Subtopic 610-20 on gains and losses from the derecognition of nonfinancial assets. Investor A immediately withdraws the cash contributed by investor B and, following such contributions and withdrawals, each investor has a 50 percent interest in the venture (the only asset of which is the real estate). Assuming investor A does not have a

~~controlling financial interest in the venture, investor A applies the guidance in paragraphs 610-20-25-5 and 610-20-25-7. When investor A meets the criteria to derecognize the property, investor A measures its retained ownership interest at fair value consistent with the guidance in paragraph 610-20-32-4 and includes that amount in the consideration used in calculating the gain or loss on derecognition of the property.~~ **[Content amended and moved to paragraph 610-20-55-20]**

970-323-30-4 Paragraph superseded by Accounting Standards Update No. 2017-05.

970-323-30-5 Paragraph superseded by Accounting Standards Update No. 2017-05.

~~• > Contribution of Services or Intangibles~~

970-323-30-6 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~The contribution of real property or an intangible to a partnership or joint venture shall be accounted for in accordance with Subtopic 610-20. The contribution of services or real estate **syndication activities** in which the syndicators receive or retain partnership interests are accounted for in accordance with the guidance in Topic 606 on revenue from contracts with customers.~~ **[Content amended and moved to paragraph 323-10-30-2C]**

~~• > Purchases of Real Estate or Services from a Venture~~

970-323-30-7 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~An investor shall not record as income its equity in the venture's profit from a sale of real estate to that investor; the investor's share of such profit shall be recorded as a reduction in the carrying amount of the purchased real estate and recognized as income on a pro rata basis as the real estate is depreciated or when it is sold to a third party. Similarly, if a venture performs services for an investor and the cost of those services is capitalized by the investor, the investor's share of the venture's profit in the transaction shall be recorded as a reduction in the carrying amount of the capitalized cost.~~ **[Content amended and moved to paragraph 323-10-35-12A]**

Subsequent Measurement

> Applying the Equity Method to an Investment in an Undivided Interest

970-323-35-1 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~The guidance in this Section applies to investments accounted for by the equity method.~~

• > Investor Accounting for Losses

970-323-35-2 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~Investors shall record their share of the real estate venture's losses, determined in conformity with generally accepted accounting principles (GAAP), without regard to unrealized increases in the estimated fair value of the venture's assets.~~

970-323-35-3 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~An investor that is liable for the obligations of the venture or is otherwise committed to provide additional financial support to the venture shall record its equity in **real estate venture** losses in excess of its investment, including loans and advances.~~

970-323-35-4 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~The following are examples of such circumstances:~~

a. ~~The investor has a legal obligation as a guarantor or general partner.~~
b. ~~The investor has indicated a commitment, based on considerations such as business reputation, intra-entity relationships, or credit standing, to provide additional financial support. Such a commitment might be indicated by previous support provided by the investor or statements by the investor to other investors or third parties of the investor's intention to provide support.~~

[Content amended and moved to paragraph 323-10-35-20A]

970-323-35-5 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~An investor, though not liable or otherwise committed to provide additional financial support, shall provide for losses in excess of investment when the imminent return to profitable operations by the venture appears to be assured. For example, a material nonrecurring loss of an isolated nature, or start-up losses, may reduce an investment below zero though the underlying profitable pattern of an investee is unimpaired.~~

970-323-35-6 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~An investor in a real estate venture shall report its recorded share of~~

~~losses in excess of its investment, including loans and advances, as a liability in its financial statements.~~ **[Content amended and moved to paragraph 323-10-35-20]**

970-323-35-7 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~If an investor does not recognize venture losses in excess of its investment, loans, and advances and the venture subsequently reports net income, the investor shall resume applying the equity method only after its share of such net income equals the share of net losses not recognized during the period in which equity accounting was suspended.~~

970-323-35-8 ~~If it is probable that one or more investors cannot bear their share of losses, the remaining investors shall record their proportionate shares of venture losses otherwise allocable to investors considered unable to bear their share of losses.~~ **[Content amended and moved to paragraph 323-10-35-20B]** The guidance in paragraph 323-10-35-20B does not apply to an investment in an **undivided interest** accounted for under the equity method~~This does not apply for real property jointly owned and operated as undivided interests in assets~~ if the claims or liens of investors' creditors are limited to investors' respective interests in such property owned by the undivided interest. Additionally, an~~An~~ investor may not be able to apply the guidance in paragraph 323-10-35-20D~~general rule~~ to an investment in an **{remove glossary link}undivided interest{remove glossary link}** because the extent to which the interests of other investors are encumbered by liens may not be known. **[Content amended as shown and moved from paragraph 970-323-35-10]**

970-323-35-9 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~When the venture subsequently reports income, those remaining investors shall record their proportionate share of the venture's net income otherwise allocable to investors considered unable to bear their share of losses until such income equals the excess losses they previously recorded. An investor who is deemed by other investors to be unable to bear its share of losses shall continue to record its contractual share of losses unless it is relieved from the obligation to make payment by agreement or operation of law.~~ **[Content amended and moved to paragraph 323-10-35-20C]**

970-323-35-10 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~The accounting by an investor for losses otherwise allocable to other investors shall be governed by the provisions of Subtopic 450-20 relating to~~

~~loss contingencies. Accordingly, the investor shall record a proportionate share of the losses otherwise allocable to other investors if it is probable that they will not bear their share. In this connection, each investor shall look primarily to the fair value of the other investors' interests in the venture and the extent to which the venture's debt is nonrecourse in evaluating their ability and willingness to bear their allocable share of losses.~~ **[Content amended and moved to paragraph 323-10-35-20D]** ~~An investor may not be able to apply the general rule to an investment in an~~ **~~undivided interest~~** ~~because the extent to which the interests of other investors are encumbered by liens may not be known.~~ **[Content amended and moved to paragraphs 323-10-35-20D and 970-323-35-8]** ~~However, there may be satisfactory alternative evidence of an ability and willingness of other investors to bear their allocable share of losses. Such evidence might be, for example, that those investors previously made loans or contributions to support cash deficits, possess satisfactory financial standing (as may be evidenced by satisfactory credit ratings), or have provided adequately collateralized guarantees.~~ **[Content moved to paragraph 323-10-35-20D]**

970-323-35-11 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~See Section 323-10-35 for additional guidance regarding accounting by equity method investor for investee losses when the investor has both loans and equity interest.~~

~~• > Other than Temporary Decline in Value of an Investment~~

970-323-35-12 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~A loss in value of an investment other than a temporary decline shall be recognized. Such a loss in value may be indicated, for example, by a decision by other investors to cease providing support or reduce their financial commitment to the venture.~~ **[Content amended and moved to paragraph 323-10-35-32]**

970-323-35-13 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~If a transaction with a real estate venture confirms that there has been a loss in the value of the asset sold that is other than temporary and that has not been recognized previously, the loss shall be recognized on the books of the transferor.~~

~~• > Intra-Entity Profit and Losses~~

970-323-35-14 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~Intra-entity profit shall be eliminated by the investor in relation to the investor's **noncontrolling interest** in the investee, unless one of the exceptions in paragraph 323-10-35-7 applies. An investor that controls the investee and enters into a transaction with the investee shall eliminate all of the interentity profit on assets remaining within the group. (See Subsection 323-30-35 for accounting guidance concerning partnership ownership interest.)~~

970-323-35-15 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~A sale of property in which the seller holds or acquires a noncontrolling interest in the buyer shall be evaluated in accordance with the guidance in paragraphs 360-10-40-3A through 40-3B. No profit shall be recognized if the seller controls the buyer.~~

~~• > Allocation Ratios~~

970-323-35-16 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~Venture agreements may designate different allocations among the investors for any of the following:~~

~~a. Profits and losses~~
~~b. Specified costs and expenses~~
~~c. Distributions of cash from operations~~
d. ~~Distributions of cash proceeds from liquidation.~~

[Content amended and moved to paragraph 323-10-35-4A]

970-323-35-17 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~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 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.~~ **[Content amended and moved to paragraph 323-10-35-4B]**

970-323-35-18 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~See Section 323-30-25 for guidance concerning partnership profit recognition.~~

> Accounting for Other Transactions with a Real Estate Venture

• > Acquisition, Development, and Construction Arrangements

970-323-35-19 See the Acquisition, Development, and Construction Subsection of Section 310-10-35 for additional guidance concerning subsequent measurement of **acquisition, development, and construction arrangements** that are required to be accounted for as real estate joint ventures under that guidance.

~~**• > Other Considerations**~~

970-323-35-20 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~In the real estate industry, the accounts of a venture may reflect accounting practices, such as those used to prepare tax basis data for investors, that vary from GAAP. If the financial statements of the investor are to be prepared in conformity with GAAP, such variances that are material shall be eliminated in applying the equity method.~~

970-323-35-21 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~See Section 323-30-35 regarding income tax to be provided on profits accrued by investor-partners and tax liabilities applicable to partnership interests.~~

970-323-35-22 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~Interest on loans and advances that are in substance capital contributions (for example, if all the investors are required to make loans and advances proportionate to their equity interests) shall be accounted for as distributions rather than as interest income by the investors.~~ **[Content moved to paragraph 323-10-35-17A]**

Derecognition

~~**> Sale of an Investment in a Real Estate Venture**~~

970-323-40-1 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~A sale of an investment in a consolidated **real estate venture** (including the sale of stock in a corporate real estate venture) shall be evaluated under the guidelines set forth in paragraphs 360-10-40-3A through 40-3B. The sale of a noncontrolling investment in a real estate venture that is being accounted for in accordance with Topic 320 on investments—debt securities; Topic 321 on investments—equity securities; Topic 323 on investments—equity method and joint ventures; or Topic 325 on investments—other, shall be accounted for in accordance with the guidance in Topic 860 on transfers and servicing.~~ **[Content amended and moved to paragraph 323-10-40-2]**

> Acquisition, Development, and Construction Arrangements

970-323-40-2 See the Acquisition, Development, and Construction Subsection of Section 310-10-40 for additional guidance concerning derecognition of **acquisition, development, and construction arrangements** that are required to be accounted for as real estate joint ventures under that guidance.

Other Presentation Matters

970-323-45-1 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~See Section 970-323-25 for discussion of certain presentation matters.~~

970-323-45-2 If real property owned by undivided interests is subject to **joint control** by the owners, the investor-venturers shall not present their investments by accounting for their pro rata share of the assets, liabilities, revenues, and expenses of the ventures (see paragraph 970-810-45-1). Most real estate ventures with ownership in the form of undivided interests are subject to some level of joint control. Accordingly, such investments shall be accounted for under the equity method~~presented in the same manner as investments in noncontrolled partnerships~~. **[Content amended as shown and moved from paragraph 970-323-25-12]**

Amendments to Subtopic 610-20

25. Add paragraph 610-20-55-20 and its related heading, with a link to transition paragraph 323-10-65-4, as follows:

Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets

Implementation Guidance and Illustrations

> Illustrations

• > Example 4—Contribution of a Nonfinancial Asset for a Noncontrolling Interest

610-20-55-20 ~~An investor that contributes real estate to the capital of a real estate venture generally should record its investment in the venture at fair value when the real estate is derecognized, regardless of whether the other investors contribute cash, property, or services. The transaction shall be accounted for in accordance with the guidance in paragraphs 360-10-40-3A through 40-3C. Some transactions are sales of an ownership interest that result in an entity being an investor in a real estate venture. An example of such a transaction includes one in which investor A~~Investor A contributes real estate with a fair value of $2,000 to ~~a venture~~an investee and ~~investor~~Investor B contributes cash in the amount of $1,000. The transfer of the real estate is ~~not considered a business or nonprofit activity and, therefore, is~~ within the scope of this Subtopic~~ 610-20 on gains and losses from the derecognition of nonfinancial assets~~. Investor A immediately withdraws the cash contributed by ~~investor~~Investor B and, following such contributions and withdrawals, each investor has a 50 percent interest in the investee~~venture~~ (the only asset of which is the real estate). Assuming ~~investor~~Investor A does not have a controlling financial interest in the investee~~venture~~, ~~investor~~Investor A applies the guidance in paragraphs 610-20-25-5 and 610-20-25-7. When ~~investor~~Investor A meets the criteria to derecognize the property, ~~investor~~Investor A measures its retained ownership interest at fair value consistent with the guidance in paragraph 610-20-32-4 and includes that amount in the consideration used in calculating the gain or loss on derecognition of the property. **[Content amended as shown and moved from paragraph 970-323-30-3]**

Amendments to Subtopic 954-810

26. Amend paragraph 954-810-15-3(i), with a link to transition paragraph 323-10-65-4, as follows:

[Note: Paragraph 954-810-15-3 is also amended in Issue A. Paragraph 954-810-15-3 also reflects a change to amend and move content from paragraph 323-30-35-3 to paragraph 323-30-15-5 under Issue A.]

Health Care Entities—Consolidation

Scope and Scope Exceptions

> Entities

954-810-15-3 If the reporting entity is a not-for-profit business-oriented health care entity, this Subtopic provides consolidation guidance for reporting relationships with other entities in addition to the guidance in the following locations:

i. Except where it elects to report such interests at fair value in accordance with the Fair Value Option Subsections of Subtopic 825-10, a not-for-profit, business-oriented health care entity shall report noncontrolling interests in for-profit ~~real estate~~ partnerships, limited liability entities, and similar entities over which the reporting entity has more than a minor interest under the equity method in accordance with the guidance in Subtopic 970-323. ~~A not-for-profit, business-oriented health care entity shall apply the guidance in paragraph 970-323-25-2 to determine whether its interest in a for-profit partnership, limited liability entity, or similar entity is a controlling interest or a noncontrolling interest.~~ A not-for-profit, business-oriented health care entity shall apply the guidance in paragraph ~~323-30-35-3~~323-30-15-5 to determine whether a limited liability entity should be viewed as similar to a partnership, as opposed to a corporation, for purposes of determining whether a noncontrolling interest in a limited liability entity or a similar entity should be accounted for in accordance with ~~Subtopic 970-323 or~~ Subtopic 323-10 or Subtopic 323-30.

Amendments to Subtopic 958-810

27. Amend paragraph 958-810-15-4(d), with a link to transition paragraph 323-10-65-4, as follows:

[Note: Paragraph 958-810-15-4 is also amended in Issue A. Paragraph 958-810-15-4 also reflects a change to amend and move content from paragraph 323-30-35-3 to paragraph 323-30-15-5 under Issue A.]

Not-for-Profit Entities—Consolidation

Scope and Scope Exceptions

> Other Considerations

958-810-15-4 Additional guidance for reporting relationships between NFPs and for-profit entities resides in the following locations in the Codification:

d. An NFP with a more than minor noncontrolling interest in a for-profit ~~real estate~~ partnership, limited liability company, or similar legal entity shall report its noncontrolling interests in such entities using the equity method ~~in accordance with the guidance in Subtopic 970-323~~ unless that interest is reported at fair value in accordance with applicable GAAP, including the guidance described in (e). An NFP shall apply the guidance in paragraph ~~970-810-25-1~~810-10-15-8 to determine whether its interests in a general partnership are controlling financial interests or noncontrolling interests. An NFP shall apply the guidance in paragraphs 958-810-25-11 through 25-29 and 958-810-55-16A through 55-16I to determine whether its interests in a for-profit limited partnership, limited liability company, or similar legal entity are controlling financial interests or noncontrolling interests. An NFP shall apply the guidance in paragraph ~~323-30-35-3~~323-30-15-5 to determine whether a limited liability company should be viewed as similar to a partnership, as opposed to a corporation, for purposes of determining whether noncontrolling interests in a limited liability company or a similar legal entity should be accounted for in accordance with ~~Subtopic 970-323 or~~ Subtopic 323-10 or Subtopic 323-30.

Amendments to Subtopic 321-10

28. Supersede paragraph 321-10-55-5 and its related heading, with a link to transition paragraph 323-10-65-4, as follows:

Investments—Equity Securities—Overall

Implementation Guidance and Illustrations

> Implementation Guidance

~~• > Scope Application by Noncontrolling Shareholders~~

321-10-55-5 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~Paragraph 970-323-25-10 explains that an investment in a corporate subsidiary that is a real estate venture shall be accounted for by the investor-parent using the principles applicable to investments in subsidiaries rather than those applicable to investments in corporate joint ventures. That is, that paragraph requires that noncontrolling shareholders in such a real estate venture should account for their investment using the principles applicable to investments in common stock set forth in Topic 323 or this Topic as applicable.~~

Amendments to Subtopic 310-10

29. Amend paragraph 310-10-25-29, with a link to transition paragraph 323-10-65-4, as follows:

Receivables—Overall

Recognition

Acquisition, Development, and Construction Arrangements

> Accounting for an Arrangement as a Loan or an Investment in Real Estate

310-10-25-29 ~~If the arrangement is accounted for as a real estate joint venture, the provisions of Subtopics 970-323 and 835-20 provide guidance for such accounting. In particular, paragraph~~Paragraph 970-835-35-1 provides

guidance on the circumstances under which interest income shall not be recognized if the arrangement is accounted for as a real estate joint venture.

Amendments to Subtopic 970-835

30. Amend paragraph 970-835-35-1, with a link to transition paragraph 323-10-65-4, as follows:

Real Estate—General—Interest

Subsequent Measurement

> Income from Loans or Advances to a Venture

970-835-35-1 An investor-lender that does not capitalize interest on its own real estate construction and development projects (see Subtopic 835-20) shall account for interest on loans and advances that are not in substance capital contributions in accordance with the following recommendations:

c. If the conditions in (a) or (b) are not present, a portion of interest income from loans and advances to a venture shall be deferred based on the investor's percentage interest in the profits and losses of the venture. However, an evaluation similar to that discussed in paragraphs 323-10-35-20B through 35-20D (including consideration of the guidance in paragraph 970-323-35-8)~~970-323-35-8 through 35-10~~ for recording the investor's share of losses should be made to avoid recording as interest income amounts that may ultimately be borne as losses by the investor making the loan.

See paragraph 323-10-35-17A~~970-323-35-22~~ regarding situations where certain amounts of interest are accounted for as distributions rather than as interest income.

[Items (a) through (b) are not shown here because they are unchanged.]

Amendments to Subtopic 460-10

31. Amend paragraph 460-10-60-1, with a link to transition paragraph 323-10-65-4, as follows:

Guarantees—Overall

Relationships

> Investments—Equity Method and Joint Ventures

460-10-60-1 For guaranteed obligations of an investee that is accounted for using the equity method, see ~~paragraph~~paragraphs 323-10-35-20 through 35-20D.

Amendments to Subtopic 810-10

32. Add paragraph 810-10-45-20A, with a link to transition paragraph 323-10-65-4, as follows:

Consolidation—Overall

Other Presentation Matters

> Attributing Net Income and Comprehensive Income to the Parent and the Noncontrolling Interest

810-10-45-20 Net income or loss and comprehensive income or loss, as described in Topic 220, shall be attributed to the parent and the noncontrolling interest.

810-10-45-20A For purposes of applying the guidance in paragraph 810-10-45-20, an entity shall consider the guidance in paragraphs 323-10-35-4A through 35-4C on accounting for equity method investments with complex allocation structures. In evaluating the related illustrative examples in paragraphs 323-10-55-58 through 55-71, an entity shall consider the differences between preparing consolidated financial statements and applying the equity method (for example, paragraphs 323-10-55-65 through 55-71 illustrate the accounting for basis differences, which is not applicable in consolidation).

Amendments to Subtopic 970-810

33. Supersede paragraphs 970-810-25-1 through 25-3 and their related headings, with a link to transition paragraph 323-10-65-4, as follows:

Real Estate—General—Consolidation

Recognition

~~> General Partnerships~~

970-810-25-1 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~A **general partnership** that is controlled, directly or indirectly, by an investor is, in substance, a subsidiary of the investor. Paragraph 810-10-15-8 states that the usual condition for a controlling financial interest is ownership of a majority voting interest, and, therefore, as a general rule ownership by one entity, directly or indirectly, of over 50 percent of the outstanding voting shares of another entity is a condition pointing toward consolidation. However, if partnership voting interests are not clearly indicated, a condition that would usually indicate control is ownership of a majority (over 50 percent) of the financial interests in profits or losses (see paragraphs 970-323-35-16 through 35-17). Paragraph 810-10-15-8 states that the power to control may also exist with a lesser percentage of ownership, for example, by contract, lease, agreement with other stockholders, or by court decree. The power to control may also exist with a lesser percentage of ownership by agreement with other partners.~~

970-810-25-2 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~On the other hand, the majority interest holder may not control the entity if one or more of the other partners have substantive participating rights that permit those other partners to effectively participate in certain significant financial and operating decisions that are made in the **ordinary course of business.** The determination of whether the rights of the other partners are substantive participating rights shall be evaluated in accordance with the guidance for substantive participating rights in paragraphs 810-10-25-2 through 25-14. If the other partners have substantive participating rights, the presumption of control by the majority interest holder is overcome. A controlling investor shall account for its investment under the principles of accounting applicable to investments in subsidiaries. Accordingly, interentity profits and losses on assets remaining within the group shall be eliminated. A noncontrolling investor in a general partnership shall account for its investment by the equity method and should be guided by the provisions of Topic 323.~~

~~> Limited Partnerships~~

970-810-25-3 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~If a **limited partnership** does not meet the conditions in paragraph~~

~~810-10-15-14 and, therefore, is not a variable interest entity, limited partners shall evaluate whether they have a controlling financial interest according to paragraph 810-10-15-8A. The guidance in Subtopic 810-10 on consolidation shall be used to determine whether any limited partners control the limited partnership:~~

~~a. If no single partner controls the limited partnership, the general and limited partners shall apply the equity method of accounting to their interests, except for instances when a limited partner's interest is so minor that the limited partner may have virtually no influence over partnership operations and financial policies (see paragraph 323-30-S99-1).~~
~~b. Subparagraph superseded by Accounting Standards Update No. 2015-02.~~
~~c. If a single limited partner controls the limited partnership, that limited partner shall consolidate the limited partnership and apply the principles of accounting applicable for investments in subsidiaries in Topic 810.~~

Other Presentation Matters

> Undivided Interests

970-810-45-1 An investment in real property may be presented by recording the undivided interest in the assets, liabilities, revenue, and expenses of the venture if all of the following conditions are met:

a. The real property is owned by **undivided interests**.
b. The approval of two or more of the owners is not required for decisions regarding the financing, development, sale, or operations of real estate owned.
c. Each investor is entitled to only its pro rata share of income.
d. Each investor is responsible to pay only its pro rata share of expenses.
e. Each investor is severally liable only for indebtedness it incurs in connection with its interest in the property.

The amendments in this proposed Update were approved for publication by the unanimous vote of the seven members of the Financial Accounting Standards Board.

Richard R. Jones, *Chair*
Hillary H. Salo, *Vice Chair*
Frederick L. Cannon
Susan M. Cosper
Marsha L. Hunt
Dr. Joyce T. Joseph
Catherine M. Shakespeare

Appendix: Paragraphs Amended by Multiple Issues

A1. This appendix provides the complete proposed amendments for those paragraphs that are amended by both issues in this proposed Update. No new amendments are included in this appendix.

954-810-15-3 If the reporting entity is a not-for-profit business-oriented health care entity, this Subtopic provides consolidation guidance for reporting relationships with other entities in addition to the guidance in the following locations:

h. Except where it elects to report such interests at fair value in accordance with the Fair Value Option Subsections of Subtopic 825-10, a not-for-profit, business-oriented health care entity that owns 50 percent or less of the common voting stock of an investee and can exercise **{add glossary link}**significant influence**{add glossary link}** over operating and financial policies shall apply the guidance in Subtopic 323-10. If the not-for-profit, business-oriented health care entity is unable to exercise significant influence, it generally shall apply the guidance on equity securities in Topic 321.

i. Except where it elects to report such interests at fair value in accordance with the Fair Value Option Subsections of Subtopic 825-10, a not-for-profit, business-oriented health care entity shall report noncontrolling interests in for-profit ~~real estate~~ partnerships, limited liability entities, and similar entities over which the reporting entity has significant influence~~more than a minor interest~~ under the equity method ~~in accordance with the guidance in Subtopic 970-323. A not-for-profit, business-oriented health care entity shall apply the guidance in paragraph 970-323-25-2 to determine whether its interest in a for-profit partnership, limited liability entity, or similar entity is a controlling interest or a noncontrolling interest~~. A not-for-profit, business-oriented health care entity shall apply the guidance in paragraph ~~323-30-35-3~~323-30-15-5 to determine whether a limited liability entity should be viewed as similar to a partnership, as opposed to a corporation, for purposes of determining whether a noncontrolling interest in a limited liability entity or a similar entity over which the reporting entity has significant influence should be accounted for in accordance with ~~Subtopic 970-323 or~~ Subtopic 323-10 or Subtopic 323-30. If the not-for-profit, business-

oriented health care entity is unable to exercise significant influence, it generally shall apply the guidance on equity securities in Topic 321.

[Items (a) through (g) are not shown here because they are unchanged.]

958-810-15-4 Additional guidance for reporting relationships between NFPs and for-profit entities resides in the following locations in the Codification:

c. An NFP that owns 50 percent or less of the voting stock in a for-profit entity shall apply the guidance in Subtopic 323-10 unless the investment is measured at fair value in accordance with applicable GAAP, including the guidance described in (e). If the NFP is unable to exercise **{add glossary link}**significant influence**{add glossary link}**, the NFP generally shall apply the guidance for equity securities in Topic 321.

d. An NFP that is able to exercise significant influence~~with a more than minor noncontrolling interest in~~ over a for-profit ~~real estate~~ partnership, limited liability company, or similar legal entity shall report its noncontrolling interests in such entities using the equity method ~~in accordance with the guidance in Subtopic 970-323~~ unless that interest is reported at fair value in accordance with applicable GAAP, including the guidance described in (e). An NFP shall apply the guidance in paragraph ~~970-810-25-1~~810-10-15-8 to determine whether its interests in a general partnership are controlling financial interests or noncontrolling interests. An NFP shall apply the guidance in paragraphs 958-810-25-11 through 25-29 and 958-810-55-16A through 55-16I to determine whether its interests in a for-profit limited partnership, limited liability company, or similar legal entity are controlling financial interests or noncontrolling interests. An NFP shall apply the guidance in paragraph ~~323-30-35-3~~323-30-15-5 to determine whether a limited liability company should be viewed as similar to a partnership, as opposed to a corporation, for purposes of determining whether noncontrolling interests in a limited liability company or a similar legal entity over which the reporting entity has significant influence should be accounted for in accordance with ~~Subtopic 970-323 or~~ Subtopic 323-10 or Subtopic 323-30. If the NFP is unable to exercise significant influence, the NFP generally shall apply the guidance on equity securities in Topic 321.

[Items (a), (b), and (e) are not shown here because they are unchanged.]

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this proposed Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. The objective of the amendments in this proposed Update is to improve the operability of the accounting for equity method investments.

BC3. The proposed amendments would make the following targeted improvements to Topic 323, Investments—Equity Method and Joint Ventures:

a. **Issue A: Scope of Topic 323.** Require a single threshold (significant influence) for applying the equity method of accounting, regardless of the legal form of the entity, and make certain changes to the indicators of significant influence in Subtopic 323-10, Investments—Equity Method and Joint Ventures—Overall.
b. **Issue B: Complex Allocation Structures.** Clarify how the equity method is applied by investors that have equity method investments with complex allocation structures.

Background Information

BC4. Feedback from the 2025 FASB Invitation to Comment, *Agenda Consultation*, indicated that the Board should prioritize improvements to the accounting for equity method investments. Stakeholders identified the following key challenges in applying the equity method of accounting:

a. **Identifying which investments should be accounted for under the equity method.** Applying different criteria to investments in corporations (and similar entities) and investments in partnerships (and similar entities) can produce unintuitive outcomes when determining whether the equity method should be applied.

b. **Cost and complexity to apply the equity method.** The equity method can be costly and complex to apply. Preparers expressed particular concern about incurring those costs when an entity does not have significant influence.
c. **Allocating earnings in complex allocation structures.** Current GAAP does not include specific guidance about how an investor in a non-real-estate entity should allocate earnings in complex allocation structures.

BC5. Some stakeholders suggested different solutions to address these key challenges, including eliminating the equity method of accounting and requiring that an entity account for all equity method investments under Topic 321, Investments—Equity Securities, or permitting an entity that elects the fair value option under Topic 825, Financial Instruments, to apply a measurement alternative similar to that in Topic 321 (see paragraph BC57). Feedback from other stakeholders indicated that the equity method is well understood in practice and provides users with decision-useful information for unconsolidated investments made for strategic purposes and investments in certain industries. The Board decided to pursue targeted improvements to the equity method of accounting rather than a broader reconsideration of the guidance.

Current Guidance

Issue A: Scope of Topic 323

BC6. Topic 323 provides the framework for determining when an entity applies the equity method of accounting to an unconsolidated equity investment. If an unconsolidated equity investment is not accounted for under the equity method, it is generally accounted for as an equity security under Topic 321. In general, an entity applies the equity method when it is able to influence the investee's operating and financial policies. However, the degree of influence required depends on the legal form of the investee.

Investments in Corporations

BC7. Investments in the common stock or in-substance common stock of corporations, corporate joint ventures, and limited liability companies that do not maintain specific ownership accounts for each investor (collectively, "investments in corporations") are accounted for under the equity method when an entity has significant influence. Subtopic 323-10 provides the following indicators of significant influence:

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.

BC8. Significant influence is presumed to exist when an entity holds 20 percent or more of the voting stock of the investee, unless that presumption is overcome by predominant evidence to the contrary. Conversely, when an entity holds less than 20 percent of the voting stock, it is presumed not to have significant influence.

Investments in Partnerships

BC9. Investments in partnerships, unincorporated joint ventures, and limited liability companies that maintain specific ownership accounts for each investor (collectively, "investments in partnerships") are accounted for under the equity method unless the investor's interest is "so minor that [it has] virtually no influence" (referred to as the "more-than-minor threshold"). This threshold was established in 1978 by the American Institute of Certified Public Accountants (AICPA) Statement of Position 78-9, *Accounting for Investments in Real Estate Ventures,* which was written for investments in real estate ventures and codified in Subtopic 970-323, Real Estate—General—Investments—Equity Method and Joint Ventures. The threshold was based on the view that, for investees that maintain specific ownership accounts for each investor, the most appropriate accounting approach is to allocate the investee's earnings to each investor's account. More specifically, the AICPA decided that the equity method should be applied to all investments in partnerships because the earnings in those structures are allocated directly to the partners' ownership accounts and not because small percentage holdings in partnerships (represented by the more-than-minor threshold) equated to significant influence.

BC10. At the May 18–19, 1995, Emerging Issues Task Force (EITF) meeting (to discuss EITF Topic No. D-46, "Accounting for Limited Partnership Investments"), the U.S. Securities and Exchange Commission (SEC) staff clarified its view that the guidance in SOP 78-9 should be applied to all investments in limited partnerships, regardless of whether they are in the real estate industry, and noted that "the SEC staff understands that practice

generally has viewed investments of more than 3 to 5 percent to be more than minor." The Board understands that the 3 to 5 percent threshold is also generally applied in practice by private companies.

Issue B: Complex Allocation Structures

BC11. Under the equity method, an entity recognizes its share of the earnings of an investee (referred to as "equity in earnings") in reported income in the same periods in which the investee reports those earnings. In a simple allocation structure, the entity generally recognizes equity in earnings on the basis of its ownership percentage. For example, an entity that owns 40 percent of an investee generally recognizes 40 percent of the investee's earnings as equity in earnings.

BC12. In contrast, in a complex allocation structure, an entity's share of earnings may not be aligned with its ownership percentage (for example, an investee that distributes earnings or cash using a distribution waterfall). In those circumstances, determining equity in earnings requires careful consideration of the substance of the arrangement. Entities often calculate their equity in earnings by using the hypothetical liquidation at book value method (HLBV), which was described in the proposed (and not finalized) AICPA Statement of Position, *Accounting for Investors' Interests in Unconsolidated Real Estate Investments*.

BC13. HLBV and the implementation guidance on how to apply HLBV are not included in the Codification; however, paragraph 970-323-35-17 provides the following about accounting for complex allocation structures:

> Accounting by the investors for their equity in the venture's earnings under such agreements requires careful consideration of substance over form…. 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 basis.

BC14. Although that guidance applies to investments in real estate ventures, entities generally apply paragraph 970-323-35-17 when accounting for equity method investments with complex allocation structures in non-real-estate ventures and use HLBV as a method for applying the guidance in paragraph 970-323-35-17 that states that "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." Under HLBV, equity in earnings is calculated on the basis of a change in the investor's interest in the investee's net assets, assuming that the investee liquidates all assets at its GAAP carrying amounts.

Benefits and Costs

BC15. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the benefits and costs of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC16. For Issue A, the Board expects that the amendments in this proposed Update would provide the following benefits:

a. **Improved consistency and comparability.** Requiring a single threshold to determine which investments should be accounted for using the equity method would improve consistency and comparability in financial reporting because entities would apply the same threshold to all types of investments. As a result, application of the equity method would be based on an entity's involvement with an investee, rather than on the legal form of the investee. Additionally, a single threshold that is based on significant influence would better align with users' expectations for when the equity method should be applied.
b. **Reduced cost and complexity.** Maintaining separate thresholds based on the legal form of an investee adds unnecessary cost and complexity

to the guidance. Entities also would no longer incur costs to apply the equity method to investments in partnerships if the entity does not have significant influence.

BC17. The Board acknowledges that the amendments in this proposed Update would introduce additional costs to evaluate whether to apply the equity method of accounting for investments in partnerships, particularly upon initial application, because an entity would be required to evaluate its existing portfolio of equity method investments. However, the Board expects that these costs would be lower on an ongoing basis because an entity would have to perform the evaluation for new investments only and it would have accounting policies in place to support those evaluations. Additionally, because significant influence is not a new threshold in GAAP, entities should be familiar with how to evaluate when significant influence exists. Therefore, the Board concluded that the expected benefits of the proposed amendments related to Issue A would justify the expected costs.

BC18. For Issue B, the Board expects that the amendments in this proposed Update would increase operability in the accounting for investments in entities with complex allocation structures because (a) moving the guidance that is not industry or transaction specific from Subtopic 970-323 to Subtopic 323-10 would make the guidance more navigable and (b) entities could refer to the illustrative examples when considering how to account for investments in entities with complex allocation structures, rather than analogizing to nonauthoritative literature. Additionally, the Board expects that the costs of implementing the proposed amendments for Issue B would be limited because they are not expected to significantly change practice. Therefore, the Board concluded that the expected benefits of the proposed amendments related to Issue B would justify the expected costs.

Basis for Conclusions

Targeted Improvements to Topic 323

Issue A: Scope of Topic 323

Single Threshold

BC19. The amendments in this proposed Update would require a single threshold (significant influence) for applying the equity method of accounting, regardless of the legal form of the investee.

BC20. The Board agreed with stakeholder feedback that the legal form of an investee and its economic design should not determine whether the equity method is applied to that investment. The Board noted that a single threshold would improve consistency and comparability and would reduce the unnecessary cost and complexity of maintaining separate thresholds. The Board also noted that a single threshold that is based on significant influence would better align with users' expectations for when the equity method should be applied and, therefore, be more decision useful. On the basis of stakeholder feedback, the Board also does not anticipate that a single threshold would significantly change the accounting method used for investments for which users indicated that the equity method is preferred (for example, stakeholders supported use of the equity method for unconsolidated investments made for strategic purposes and investments in certain industries; see paragraph BC5). This is because entities generally have significant influence over those types of investees.

BC21. The Board acknowledges that entities would incur additional costs to evaluate significant influence for investments in partnerships as compared with current guidance, which is a solely quantitative assessment. However, the Board expects that those costs would decrease on an ongoing basis because an entity would have to perform the evaluation for new investments only and it would have accounting policies in place to support those evaluations. Additionally, the Board notes that the amendments in this proposed Update would leverage the existing significant influence threshold in GAAP, which entities already use to determine whether to apply the equity method of accounting to investments in corporations. The Board also noted that some of the increased costs to evaluate significant influence for investments in

partnerships could be mitigated by the proposed improvements to the significant influence guidance in Subtopic 323-10 (see paragraphs BC22 through BC30). The Board further noted that a single threshold would reduce the costs incurred to apply the equity method because entities would no longer have to account for investments in partnerships under that method if an entity is unable to exercise significant influence. On the basis of stakeholder feedback, the Board expects that this cost reduction would be particularly meaningful for private companies.

The Evaluation of Significant Influence

BC22. The amendments in this proposed Update would improve the operability of the significant influence guidance in Subtopic 323-10 by:

a. Removing the presumption that an entity does not have significant influence when it holds less than 20 percent of an investee. As a result, an entity that holds less than 20 percent of an investee would be required to evaluate whether it has significant influence on the basis of facts and circumstances. If the entity has significant influence, it would be required to use the equity method of accounting.
b. Expanding the board of directors indicator to include functionally equivalent governing bodies in partnership structures.
c. Specifying that a noncontrolling general partner (or functional equivalent such as a managing member in a limited liability company) has significant influence.

BC23. In deciding to require a single threshold, the Board considered whether the significant influence guidance in Subtopic 323-10, which was written for investments in corporations, would be operable for investments in partnerships.

BC24. Stakeholders said that the significant influence guidance is well understood and could apply more broadly to investments in partnerships. Therefore, the Board decided that significant changes to that guidance were not needed. However, the Board decided to make some targeted improvements to the significant influence guidance to improve the operability of that guidance for investments in partnerships. The intent of these improvements is to clarify how to evaluate significant influence across all types of investees, rather than to broadly change the meaning of significant influence, which would be beyond the scope of this project. The Board also expects that

these improvements could mitigate some of the increased costs that entities would incur to evaluate significant influence for investments in partnerships.

Quantitative threshold of significant influence

BC25. Stakeholders indicated that entities that invest in partnerships often have significant influence at ownership levels below 20 percent. Stakeholders said that requiring those entities to overcome a quantitative presumption that significant influence does not exist would be unintuitive and would add unnecessary cost and complexity. On the basis of that feedback, the Board decided to remove the presumption that an entity does not have significant influence when it holds less than 20 percent of an investee. As a result, an entity would have to evaluate whether significant influence exists on the basis of facts and circumstances. Some stakeholders indicated that this approach would be generally consistent with how the guidance is currently evaluated for investments in corporations because, in many circumstances, an entity that holds less than 20 percent of a corporation will broadly consider the significant influence indicators to determine whether it has significant influence. The amendments in this proposed Update would not change the presumption that an entity has significant influence when it holds more than 20 percent of an investee (whether the investee is a corporation or a partnership).

BC26. The Board concluded that removing this presumption would address concerns that investors in partnerships with significant influence would incur undue cost to overcome a presumption that significant influence does not exist and would reduce the use of bright lines, thereby allowing for a more principles-based assessment of significant influence. However, some Board members expressed concern that removing the presumption that an entity does not have significant influence when it holds less than 20 percent of an investee, which is intended to improve the operability of the guidance for investments in partnerships, would increase the costs incurred to determine when the equity method applies and potentially change the accounting method used for investments in corporations. These Board members indicated that significantly changing practice for investments in corporations would be beyond the scope of this project. The Board included a question in this proposed Update to solicit stakeholder feedback about this issue.

Functionally equivalent governing structures to a board of directors

BC27. On the basis of stakeholder feedback, the Board decided to expand the guidance in paragraph 323-10-15-6(a) to include investees with governance structures that are the functional equivalent of a board of directors to acknowledge that investments in noncorporate form entities can have similar governance structures (for example, a limited liability company that is governed by a board of managers). This change also would better align with the guidance in IAS 28, *Investments in Associates and Joint Ventures*.

Noncontrolling general partners and functional equivalents

BC28. Stakeholders observed, and the Board agreed, that a noncontrolling general partner or functional equivalent (such as a managing member in a limited liability company) by design has significant influence over a partnership because a general partner is responsible for actively managing a partnership and making day-to-day decisions. Therefore, the Board decided to specify in Subtopic 323-10 that a noncontrolling general partner or functional equivalent has significant influence and, as a result, must apply the equity method. While investments in partnerships are outside the scope of Subtopic 323-10, the Board notes that paragraph 323-30-25-1 requires that investments in partnerships be accounted for under the equity method by analogy to Subtopic 323-10.

BC29. Board members noted that this requirement would be consistent with the current guidance for investments in real estate entities and should alleviate the costs of documenting why a noncontrolling general partner has significant influence when it holds less than 20 percent of a partnership. The Board also decided to specify that this improvement would apply to *noncontrolling* general partners and functional equivalents to avoid confusion with how a general partner evaluates control under Topic 810, Consolidation.

BC30. The Board discussed whether this improvement should be structured as a rebuttable presumption, rather than specifying that significant influence always exists. On the basis of stakeholder feedback, the Board is not aware of any circumstances in which a noncontrolling general partner or functional equivalent would not have significant influence, and, therefore, it decided not to pursue a rebuttable presumption. The Board included a question in this proposed Update to solicit stakeholder feedback about this issue.

Other improvements considered but dismissed

BC31. Stakeholders suggested adding guidance to Subtopic 323-10 on how an entity should consider participating and protective rights (as considered in Topic 810) when assessing significant influence because doing so would improve the operability of that guidance and promote consistency across GAAP. However, stakeholders had mixed views on how to incorporate that guidance, and some stakeholders were concerned that leveraging the guidance in Topic 810 could add cost and complexity to the guidance in Subtopic 323-10.

BC32. While acknowledging stakeholder interest for more guidance in this area, the Board expressed similar concerns that leveraging the guidance in Topic 810 would add unnecessary cost and complexity to the evaluation of significant influence in Subtopic 323-10. The Board also noted that adding guidance on participating and protective rights in Subtopic 323-10 would more broadly change the evaluation of significant influence and, therefore, would be beyond the scope of Issue A (see paragraph BC24). For those reasons, the Board decided not to add guidance to Subtopic 323-10 on how an entity should consider participating and protective rights when assessing significant influence.

In-Substance Common Stock

BC33. Some stakeholders questioned whether other scoping considerations in Subtopic 323-10, specifically the guidance on in-substance common stock, also would be applied to investments in partnerships as a result of requiring a single threshold for evaluating whether to apply the equity method of accounting. The guidance on in-substance common stock, which applies to investments in corporations only, requires that an entity apply the equity method to investments that have risk and reward characteristics that are substantially similar to the investee's common stock.

BC34. Stakeholders observed, and the Board agreed, that applying the in-substance common stock guidance to investments in partnerships would be challenging because partnership structures often embed preferred and residual returns in the same instrument, making it difficult to determine the common or residual interest. Additionally, the Board noted that expanding the in-substance common stock guidance to investments in partnerships would be beyond the scope of this project because it would change the types of investments in

partnerships that may be required to apply the equity method of accounting, rather than align the thresholds for when the equity method is applied.

BC35. For the reasons discussed above, the Board decided not to explore requiring that an entity apply the in-substance common stock guidance in Subtopic 323-10 to investments in partnerships. Therefore, entities would continue to apply that guidance only to investments in corporations. Additionally, the decision to require a single threshold (significant influence) would not change that an investment in a corporation that is not in-substance common stock is not accounted for under the equity method.

Issue B: Complex Allocation Structures

Moving Non-Industry-Specific Guidance from Subtopic 970-323 to Subtopic 323-10

BC36. The amendments in this proposed Update would move the guidance in Subtopic 970-323 on complex allocation structures, along with other guidance in Subtopic 970-323 that is not industry or transaction specific, to Subtopic 323-10 (and other applicable Subtopics). As a result, only industry-specific guidance for real estate ventures would remain in Subtopic 970-323. An entity with an investment in a real estate venture also would apply the provisions of Topic 810, Topic 323, or Topic 321, as applicable.

BC37. Subtopic 323-10 does not address how to allocate equity in earnings in complex allocation structures. Stakeholders indicated that the guidance in paragraph 970-323-35-17 should apply to all equity method investments and noted that many entities already use that guidance when determining equity in earnings in complex allocation structures for non-real-estate entities. Many stakeholders also supported moving other guidance in Subtopic 970-323 that is not industry or transaction specific to Subtopic 323-10 because doing so would improve the navigability of the Codification.

BC38. The Board agreed that moving the guidance in Subtopic 970-323 that is not industry or transaction specific to Subtopic 323-10 would improve the navigability of the Codification. The Board also expects that the amendments in this proposed Update would not significantly change practice because many entities already analogize to non-industry-specific guidance in Subtopic 970-323 for investments in non-real-estate entities.

BC39. In developing the amendments in this proposed Update, the Board considered whether any of the non-industry-specific guidance in Subtopic 970-323 is duplicative of existing guidance in Subtopic 323-10 or other Subtopics of the Codification. In those circumstances, the proposed amendments would supersede the duplicative guidance from Subtopic 970-323. Additionally, the Board considered whether any non-industry-specific guidance in Subtopic 970-323 is inconsistent with the guidance in Subtopic 323-10 or if it would change how practice generally accounts for investments in non-real-estate entities under Subtopic 323-10. In those circumstances, that guidance would remain in Subtopic 970-323 because the Board did not intend to significantly change other accounting for investments in real estate ventures or non-real-estate entities as part of this project. The Board did not identify any such inconsistencies during its review.

Illustrative Examples

BC40. The amendments in this proposed Update would add illustrative examples to Topic 323 to show one possible method that could be used to allocate equity in earnings in complex allocation structures.

BC41. The Board noted that these examples would improve the operability of the guidance and provide a starting point in GAAP for stakeholders to understand a method that could be used to account for equity method investments with complex allocation structures, rather than relying on examples in nonauthoritative literature.

BC42. Some stakeholders had differing views on whether the illustrative examples should be characterized as one possible method or the only permissible method. The Board decided that the amendments in this proposed Update would clearly state that the examples illustrate one possible method and that other methods may be permissible. Board members noted that presenting the examples as the only permissible method could change practice based on feedback that other methods may currently be used. Additionally, the Board observed that in some complex allocation structures, the methodology illustrated in the examples may not appropriately reflect the substance of those allocation arrangements. In those cases, an entity should use judgment to apply an appropriate methodology. For similar reasons, the proposed amendments do not refer to HLBV, even though the methodology illustrated in the examples is similar to HLBV, which, as previously noted, is a method used

to interpret the guidance in paragraph 970-323-35-17; see paragraph BC14. In the same way, paragraphs 323-10-55-65 through 55-71 illustrate a possible method for applying the complex allocation structures guidance when there are basis differences; however, other methods, such as recasting an investee's financial statements, may also be appropriate.

BC43. One of the examples in this proposed Update illustrates application of the guidance on investments with complex allocation structures to an investment in a limited partnership. While limited partnerships are outside the scope of Subtopic 323-10, the Board notes that paragraph 323-30-25-1 requires investments in limited partnerships accounted for under the equity method to use the guidance in Subtopic 323-10.

Other Improvements Considered but Dismissed

BC44. Paragraph 970-323-35-17 indicates that an entity should carefully consider substance over form when accounting for investments in entities with complex allocation structures. Stakeholders indicated that it can be difficult to evaluate substance over form and suggested various improvements to increase the operability of that guidance. On the basis of that feedback, the Board considered targeted improvements that would require that an entity (a) disregard terms and conditions that apply only in remote circumstances and (b) follow only terms and conditions that are currently in effect.

BC45. The Board decided not to pursue targeted improvements to the guidance in paragraph 970-323-35-17 because doing so could (a) result in guidance that is overly prescriptive, (b) introduce additional complexity or confusion, and (c) more broadly change the accounting for investments in entities with complex allocation structures. The Board also observed that the existing guidance already requires careful consideration of substance over form and, therefore, the concepts underlying the targeted improvements described in paragraph BC44 did not need to be explicitly stated. Finally, the Board noted that these arrangements are inherently complex and that it would be challenging to develop additional guidance that appropriately addresses the variety of structures that might exist.

Consequential Amendments

BC46. As a result of its decisions on Issue A and Issue B, the Board decided to make the following consequential amendments:

a. Related to Issue A:
    1. Proportionate consolidation
    2. Proportional amortization method
b. Related to Issue B:
    1. Allocation of income to the noncontrolling interest
    2. Consolidation for real estate ventures.

Proportionate Consolidation

BC47. The amendments in this proposed Update would permit an entity to apply proportionate consolidation to equity investments in an unincorporated legal entity in the construction industry or an extractive industry (referred to throughout this section as "eligible investments") if those investments are unconsolidated.

BC48. Proportionate consolidation refers to a method in which an entity proportionately consolidates the assets, liabilities, revenues, and expenses of an investee. Under current GAAP, proportionate consolidation can be elected for eligible investments as an alternative to the equity method. Therefore, an entity can only apply proportionate consolidation to eligible investments if those investments would otherwise qualify for the equity method under the threshold for unincorporated investees (the more-than-minor threshold). Stakeholders provided feedback that some investments, particularly those in an extractive industry, may not qualify for the equity method under a single threshold based on significant influence and, as a result, would not be able to continue to apply proportionate consolidation.

BC49. The Board noted that stakeholders in certain industries widely support proportionate consolidation and that changing the accounting for these investments would be inconsistent with that feedback. While acknowledging the link between proportionate consolidation and the equity method, Board members noted that they did not intend to change the population of investments currently eligible for proportionate consolidation as part of this project. For those reasons, the Board decided that the population of investments that are currently eligible for proportionate consolidation would remain eligible for that method under a single threshold for applying the equity method.

BC50. Because the amendments in this proposed Update would permit the use of proportionate consolidation for any unconsolidated eligible investment,

the proposed amendments would expand the use of proportionate consolidation to some investments that are currently not eligible for that method. Specifically, this would include investments that do not meet the more-than-minor threshold and, therefore, are not accounted for under the equity method in current GAAP. On the basis of stakeholder feedback, the Board understands that the number of eligible investments that do not currently meet the more-than-minor threshold is limited. Therefore, the Board does not expect that the proposed amendments would significantly broaden application of proportionate consolidation. The Board included a question in this proposed Update to solicit stakeholder feedback about this issue.

BC51. The amendments in this proposed Update would not change the requirements for when proportionate consolidation can be applied to investments in real property owned by undivided interests.

Proportional Amortization Method

BC52. If certain conditions are met, an entity can elect to account for an equity investment that generates income tax credits and other income tax benefits under the proportional amortization method in Subtopic 740-323, Income Taxes—Investments—Equity Method and Joint Ventures. If a tax equity investment is not accounted for under the proportional amortization method, it is generally accounted for under the equity method because those investments are typically made in unincorporated entities and the entity typically meets the more-than-minor threshold.

BC53. Some stakeholders questioned whether the amendments in this proposed Update would affect an entity's ability to elect the proportional amortization method if a tax equity investment does not qualify for the equity method under a single threshold. Unlike the guidance on proportionate consolidation, GAAP does not require that a tax equity investment otherwise qualify for the equity method to be eligible for the proportional amortization method. Therefore, the Board believes that requiring a single threshold should not affect the population of investments that are eligible for the proportional amortization method. Nevertheless, to avoid confusion, the proposed amendments would clarify that an entity should first evaluate whether a tax equity investment qualifies for the proportional amortization method and whether that method has been elected before evaluating how to account for that investment under other GAAP, including the equity method of accounting.

Allocation of Income to Noncontrolling Interests

BC54. The amendments in this proposed Update would require that entities consider the guidance in Topic 323 on complex allocation structures when allocating income to noncontrolling interests under Topic 810. Stakeholders indicated that current GAAP does not contain guidance on how to allocate earnings to noncontrolling interests in entities with complex allocation structures and that entities frequently apply the guidance in paragraph 970-323-35-17 and HLBV by analogy (consistent with the reasons for why entities use HLBV to determine equity in earnings; see paragraph BC14). To address this issue, stakeholders supported adding guidance in Topic 810 that references the guidance on complex allocation structures in Topic 323, including any other amendments that the Board pursues to address Issue B, such as adding illustrative examples. The Board agreed that this change would improve the operability of accounting for noncontrolling interests in entities with complex allocation structures because entities could apply the proposed amendments to Topic 810, rather than analogize to the guidance in other Subtopics or nonauthoritative literature.

Consolidation for Real Estate Ventures

BC55. The amendments in this proposed Update would supersede the guidance in paragraphs 970-810-25-1 through 25-3, which addresses when an investor in a real estate venture should consolidate a general partnership or a limited partnership. Stakeholders indicated that this guidance is not used in practice and that investors in the real estate industry directly apply Topic 810 when evaluating consolidation. The Board also observed that the guidance in those paragraphs is not industry or transaction specific because it either directly references Topic 810 or includes guidance similar to Topic 810. Consistent with its decision to move or supersede the guidance in Subtopic 970-323 that is not industry or transaction specific, the Board decided to remove paragraphs 970-810-25-1 through 25-3.

Transition, Early Adoption, and Effective Date

Transition

BC56. The Board decided to apply different transition requirements for Issue A and Issue B.

Issue A: Scope of the Equity Method

BC57. An investment that is no longer within the scope of the equity method after applying the amendments in this proposed Update would be accounted for under Topic 321. In accordance with Topic 321, an entity can elect an alternative measurement method (referred to as the "measurement alternative") that allows the entity to subsequently measure certain equity securities without a readily determinable fair value at cost, minus impairment, if any. However, if an entity identifies observable price changes in orderly transactions for the identical or a similar investment of the same issuer, it must measure the equity security at fair value as of the date that the observable transaction occurred.

BC58. The transition requirements for Issue A would differ depending on whether an investment that is no longer within the scope of the equity method on the date of adoption after applying the amendments in this proposed Update elects the measurement alternative in Topic 321 on the adoption date.

a. **Investments accounted for under the measurement alternative.** An entity would apply the proposed amendments using a modified prospective approach. Under this approach, an entity would use the carrying amount of its equity method investment on the date of adoption as the new cost basis for that investment under the measurement alternative in accordance with the guidance in paragraphs 323-10-35-35 through 35-39. Therefore, an entity would transition from Topic 323 to Topic 321 consistent with how it discontinues applying the equity method and begins applying the measurement alternative under current GAAP when an entity loses significant influence. The Board noted that this methodology would be more operable than a retrospective approach or a modified retrospective approach because an entity would not have to incur additional costs to identify observable prices in prior periods.
b. **Investments not accounted for under the measurement alternative.** An entity would apply the proposed amendments using a modified retrospective approach. Under this approach, an entity would recognize a cumulative-effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) as of the date of adoption. That adjustment would be calculated as the difference, as of the date of adoption, between the carrying amount of the equity method investment

and its fair value. Because entities could elect the measurement alternative for investments without a readily determinable fair value, this transition method would not have to be used when historical fair value information is not readily available and, therefore, should not result in undue cost and complexity.

BC59. Some Board members observed that the proposed transition methods for Issue A may be overly complex. Those Board members expressed an interest in understanding whether a single transition method would be preferable for all investments affected by Issue A. The Board included a question in this proposed Update to solicit stakeholder feedback about this issue.

BC60. The proposed transition requirements for Issue A were developed on the basis of an expectation that an investment would transition from being accounted for under Topic 323 to Topic 321 as a result of requiring a single threshold for applying the equity method. That is because investors in partnerships would have to demonstrate a higher level of influence (significant influence) to apply the equity method as compared with current GAAP (more than minor influence). However, as noted in paragraph BC26, some Board members observed that certain amendments in this proposed Update could change outcomes for investments in corporations that could result in those investments qualifying for the equity method and having to transition from Topic 321 to Topic 323. Additionally, as noted in paragraph BC50, the proposed amendments would expand the use of proportionate consolidation to certain investments that are currently not eligible for that method. The Board included a question in this proposed Update to solicit stakeholder feedback about these issues, including what transition approaches would be operable for those investments.

BC61. Regarding transition disclosures, the Board considered the disclosure requirements in Topic 250, Accounting Changes and Error Corrections, and the proposed transition methods. The Board decided that an entity would be required to disclose the nature of and reason for the change in accounting principle and, if applicable, the cumulative effect of the change on retained earnings (or other components of equity or net assets in the statement of financial position) as of the date of adoption, in both the interim reporting period (if applicable) and the annual reporting period of the change.

Issue B: Complex Allocation Structures

BC62. The Board decided that entities would be required to apply the amendments in this proposed Update for Issue B on a prospective basis to new and existing investments. Therefore, any changes that result from applying a new attribution method for recognizing equity in earnings would be recognized in the period of adoption. The Board expects that this transition method would be more cost beneficial than other transition methods because the proposed amendments for Issue B are not expected to significantly change practice.

BC63. Regarding transition disclosures for Issue B, the Board considered the disclosure requirements in Topic 250. Given a prospective transition approach, the Board decided to limit the proposed transition disclosures to require that entities disclose the nature of and reason for the change in accounting principle. Additionally, the Board decided that an entity must provide these disclosures in both the interim reporting period (if applicable) and the annual reporting period of the change.

Early Adoption

BC64. The Board decided to permit early adoption for all entities in interim or annual reporting periods in which the financial statements have not been issued or made available for issuance. An entity adopting the amendments in this proposed Update in an interim reporting period would be required to adopt them as of the beginning of the annual reporting period that includes that interim reporting period.

BC65. The Board decided to allow for early adoption so that entities that are ready to adopt the guidance may do so. The Board acknowledged concerns that early adoption could reduce comparability between entities that early adopt and those that do not. However, the Board noted that (a) noncomparability already exists because of the different thresholds under the equity method for investments in partnerships and corporations (Issue A) and (b) the amendments in this proposed Update for Issue B are not expected to significantly change practice.

Effective Date

BC66. The Board will determine the effective date after it considers stakeholder feedback on the amendments in this proposed Update.

Amendments to the GAAP Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would require improvements to the GAAP Financial Reporting Taxonomy and SEC Reporting Taxonomy (collectively referred to as the "GAAP Taxonomy"). We welcome comments on these proposed improvements to the GAAP Taxonomy at xbrled@fasb.org. After the FASB has completed its deliberations and issued a final Accounting Standards Update, the proposed improvements to the GAAP Taxonomy will be finalized as part of the annual release process.