

FASB to Issue Final Standard on Simplifying the Equity Method of Accounting

November 20, 2015 — At its meeting yesterday, the FASB discussed the feedback received on its [proposed Accounting Standards Update \(ASU\)](#) on simplifying the equity method of accounting. The Board directed its staff to draft a final ASU that will eliminate the requirement that an entity retrospectively adopt the equity method if an investment qualifies for the equity method as a result of an increase in the level of ownership interest or degree of influence.

At the meeting, the Board made the following tentative decisions:

- *Issue 1: Elimination of basis difference* — The FASB decided not to move forward at this time with a decision on whether to eliminate the requirement to account for the basis difference between the cost of an investment and the underlying net assets of the investee. The Board instructed its staff to perform further research and will continue to keep this issue on its active agenda for further deliberation.
- *Issue 2(a): Retrospective application of equity method* — The FASB affirmed its decision to eliminate the retrospective application requirement for investments that qualify for the equity method as a result of an increase in the level of ownership interest or degree of influence. In addition, on the basis of feedback received on its exposure draft, the Board decided that unrealized holding gains or losses in accumulated other comprehensive income related to an available-for-sale security that becomes eligible for the equity method should be recognized in earnings as of the date on which the investment qualifies for the equity method.
- *Issue 2(b): Transition and transition disclosures* — The guidance in the final ASU will be applied prospectively to increases in the level of ownership interest or degree of influence occurring after the final ASU's effective date. No transition disclosures will be required after the entity's adoption date.
- *Issue 2(c): Effective date* — For all entities, the final ASU will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years.
- *Issue 2(d): Early application* — For all entities, the final ASU will permit early adoption upon issuance.

The FASB is expected to issue the final ASU in the first quarter of 2016.

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