PMR: Investments ASPE 3051

N.B. – Text in purple are not converged between ASPE and IFRS

1. **Investment subject to significant influence** = able to exercise significant influence over the strategic operating, investing and financing policies of an investee even when the investor does not control or jointly control the investee.
    1. The ability to exercise significant influence may be indicated by
        - representation on the board of directors
        - participation in policy-making processes
        - material intercompany transactions
        - interchange of managerial personnel or
        - provision of technical information
    2. Under ASPE, significant influence is usually exercised with investor owns >20% but <50% of the voting shares – **BUT** significant influence can still happen **even when not holding 20% (it's a judgement call)**
        - If the investor holds **less than 20 percent** of the voting interest in the investee, **it is presumed that the investor does not have the ability to exercise significant influence**, unless such influence is clearly demonstrated.

2. **Accounting methods for Investment subject to significant influence under ASPE**
    1. **Cost Method**
        - If the investment is in publically traded shares, you CANNOT use cost; you MUST use FV method, with gains/losses reported in net income
    2. **Equity Method**
        - **Investment balance on the B/S =** Cost + Proportionate Share of Investor's NI – Dividends from Investee
            - **Proportionate Share of Investors NI** = (NI of the investee – Acquisition differential amortization ± upstream profits) * your share % **± 100% of downstream profits**
        - **Investment Income =** proportionate share of investor's NI

3. **What happens if losses in the investee's books grind down the investment account to below zero (i.e. causes a negative investment account balance)?**
    - An investor's share of losses in excess of the carrying amount of the investment shall be recorded (as a liability) if:
        - the investor has guaranteed the obligations of the investee; or
        - investor is committed to provide further financial support to the investee; or
        - The investee seems assured of imminently returning to profitability.
    - If these above criteria are not met; you show the investment at $0 and disclose the losses; and when the investment recovers to an amount above the accumulated losses, then only do you start showing a balance in investments in the B/S.

4. **Impairment of an Investment**
    - At the end of each reporting period, assess whether there are any indications that an investment may be impaired.
        - Financial difficulties
        - Market for the shares of investee starts disappearing
        - Market changes/economic changes that cause financial difficulties
    - Once you identify that significant adverse change in the expected timing or amount of future cash flows from an investment reduce the BV of the investment to the **higher of:**
        a) **PV of the cash flows** expected to be generated by holding the investment, discounted using a **current market rate** of interest appropriate to the asset
        b) Selling Price of investment
    - Losses go to NI
    - **We can reverse impairment losses,** if the investment subsequently recovers. The investment shall be no greater than the amount that **would have been reported** at the date of the reversal had the impairment not been recognized previously

Major Differences between ASPE/IFRS

- ASPE allows cost or equity method
- Impairment testing is different