Accounting Standards for Business Enterprises No. 2 — Long-term Equity Investments

Chapter 1: General Provisions

Article 1

This Standard is formulated in accordance with the *Accounting Standards for Business Enterprises — Basic Standards* to prescribe the recognition and measurement of long-term equity investments.

Article 2

The term "long-term equity investments" in this Standard refers to equity investments where the investor has control, significant influence, or joint control over the investee.

When determining whether control over the investee exists, the investor shall assess in accordance with the *Accounting Standards for Business Enterprises No. 33 — Consolidated Financial Statements*. If the investor can exercise control over the investee, the investee is its subsidiary, except where the investor is an investment entity as defined in *Accounting Standards for Business Enterprises No. 33* and the subsidiary is not consolidated.

Significant influence refers to the power to participate in the financial and operating policy decisions of the investee but not the ability to control or jointly control those policies. In assessing significant influence, potential voting rights such as convertible bonds or exercisable warrants held by the investor or other parties shall be considered. If the investor has significant influence over the investee, the investee is its associate.

Whether an investee is a joint venture shall be determined in accordance with *Accounting Standards for Business Enterprises No. 40 — Joint Arrangements*.

Article 3

The following items shall be accounted for under other relevant standards:

1. Foreign currency translation of long-term equity investments shall follow *Accounting Standards for Business Enterprises No. 19 — Foreign Currency Translation*.
2. Equity investments held by venture capital institutions, mutual funds, or similar entities that are measured at fair value with changes recognized in profit or loss upon initial recognition under *Accounting Standards for Business Enterprises No. 22 — Recognition and Measurement of Financial Instruments*, equity investments in subsidiaries not consolidated by investment entities, and other equity investments not covered by this Standard shall follow *Accounting Standards for Business Enterprises No. 22 — Recognition and Measurement of Financial Instruments*.

Article 4

Disclosures related to long-term equity investments shall follow *Accounting Standards for Business Enterprises No. 41 — Disclosures of Interests in Other Entities*.

Chapter 2: Initial Measurement

Article 5

For long-term equity investments arising from business combinations, the initial investment cost shall be determined as follows:

1. Business combinations under common control:
    - If the combining party pays cash, transfers non-cash assets, or assumes liabilities as consideration,

the initial investment cost shall be the carrying amount of the acquiree's equity interests in the consolidated financial statements of the ultimate controlling party on the acquisition date. Any difference between the initial investment cost and the carrying amount of consideration paid shall be adjusted against capital reserves; if capital reserves are insufficient, the excess shall be adjusted against retained earnings.

  - If the combining party issues equity securities as consideration, the initial investment cost shall be determined similarly, with any difference between the initial cost and the total par value of shares issued adjusted against capital reserves or retained earnings.

2. Business combinations not under common control:
   The initial investment cost shall be the combination cost determined in accordance with *Accounting Standards for Business Enterprises No. 20 — Business Combinations*.

Audit, legal, valuation, and other professional fees related to the combination shall be expensed as incurred.

Article 6

For long-term equity investments obtained by other means, the initial investment cost shall be determined as follows:

1. Cash payment: The actual purchase price plus directly attributable costs, taxes, and other necessary expenditures.
2. Issuance of equity securities: The fair value of the equity securities issued, with directly attributable costs accounted for under *Accounting Standards for Business Enterprises No. 37 — Financial Instruments: Presentation*.
3. Non-monetary asset exchange: Determined under *Accounting Standards for Business Enterprises No. 7 — Non-monetary Asset Exchange*.
4. Debt restructuring: Determined under *Accounting Standards for Business Enterprises No. 12 — Debt Restructuring*.

Chapter 3: Subsequent Measurement

Article 7

Long-term equity investments where the investor has control shall be measured using the cost method.

Article 8

Under the cost method, the initial investment cost shall not be adjusted except for additional investments or disposals. Dividends or profits declared by the investee shall be recognized as investment income.

Article 9

Investments in associates and joint ventures shall be accounted for using the equity method (Articles 10–13).

For investments in associates held indirectly through venture capital entities, mutual funds, etc., the investor may elect to measure the indirect portion at fair value through profit or loss under *Accounting Standards for Business Enterprises No. 22*, while applying the equity method to the remainder.

Article 10

If the initial investment cost exceeds the investor's share of the investee's identifiable net assets at fair value, no adjustment is made. If the initial cost is lower, the difference shall be recognized in profit or loss, and the investment cost adjusted.

Article 11

The investor shall recognize its share of the investee's net profit or loss and other comprehensive income (OCI), adjusting the carrying amount accordingly. Dividends received reduce the carrying amount. Other changes in the investee's equity shall be recognized in the investor's equity.

The investor shall adjust the investee's profit or loss based on the fair value of identifiable net assets at acquisition. If accounting policies or periods differ, the investee's financial statements shall be adjusted accordingly.

Article 12

Losses recognized shall not exceed the carrying amount of the investment plus any long-term interests constituting a net investment. Subsequent profits shall reverse previously unrecognized losses before recognition resumes.

Article 13

Unrealized gains/losses from transactions between the investor and the investee shall be eliminated proportionately. Unrealized losses constituting asset impairment shall be fully recognized under *Accounting Standards for Business Enterprises No. 8 — Asset Impairment*.

Article 14

If an investor gains significant influence or joint control through additional investments, the initial cost under the equity method shall be the fair value of the original holding plus the new investment cost. For previously held available-for-sale financial assets, reclassification adjustments shall be made.

If control is obtained in a business combination not under common control, the initial cost under the cost method shall be the carrying amount of the original holding plus the new investment cost. OCI from the equity method shall be reclassified upon disposal.

Article 15

If significant influence or joint control is lost due to partial disposal, the remaining interest shall be remeasured at fair value, with differences recognized in profit or loss. OCI from the equity method shall be reclassified as if the investee had directly disposed of the related assets/liabilities.

If control is lost, the remaining interest shall be accounted for under the equity method (if significant influence/joint control remains) or *Accounting Standards for Business Enterprises No. 22* (otherwise), with fair value adjustments recognized in profit or loss.

Article 16

If an investment in an associate/joint venture is classified as held for sale, the requirements of *Accounting Standards for Business Enterprises No. 4 — Fixed Assets* apply. The remaining portion shall continue under the equity method. If the held-for-sale classification is later discontinued, retrospective adjustments shall be made.

Article 17

Gains/losses on disposal shall be recognized in profit or loss. For equity-method investments, OCI shall be reclassified proportionately.

Article 18

If the carrying amount exceeds the recoverable amount, impairment shall be recognized under *Accounting Standards for Business Enterprises No. 8*.

Chapter 4: Transitional Provisions

Article 19

Enterprises shall apply this Standard retrospectively from its effective date, unless impracticable.

Chapter 5: Supplementary Provisions

Article 20

This Standard shall be effective as of July 1, 2014.

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