

Accounting Standards Interpretation (ASI) 18¹
**Consideration of Potential Equity Shares
for Determining whether an Investee is an
Associate under AS 23**

**Accounting Standard (AS) 23, Accounting for
Investments in Associates in Consolidated Financial
Statements**

*[Pursuant to the issuance of this Accounting Standards Interpretation,
General Clarification (GC) – 8/2002, issued in June 2002, stands
withdrawn.]*

ISSUE

1. For applying the definition of an ‘associate’, whether the potential equity shares of the investee held by the investor should be taken into account for determining the voting power of the investor.

CONSENSUS

2. The potential equity shares of the investee held by the investor should not be taken into account for determining the voting power of the investor.

BASIS FOR CONCLUSIONS

3. AS 23 defines ‘associate’ as “*an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor*”. ‘Significant influence’ is defined in AS 23 as “*the power to participate in the financial and/or operating policy decisions of the investee but not control over those policies*”. AS 23 further explains

¹ Published in ‘The Chartered Accountant’, March 2004, pp. 962. The authority of this ASI is the same as that of the Accounting Standard to which it relates. The contents of this ASI are intended for the limited purpose of the Accounting Standard to which it relates. ASI is intended to apply only to material items.

in paragraph 4 that as regards share ownership, if an investor holds, directly or indirectly through subsidiary(ies), 20% or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly through subsidiary(ies), less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated.

4. For the above purpose, it is appropriate that the voting power is determined on the basis of the current outstanding securities with voting rights since potential equity shares do not have the voting power from the point of view of participating in the financial and/or operating policy decisions of the investee.