Muddy Waters Capital LLC
info@muddywatersresearch.com
Director of Research: Carson C. Block

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Chinook Therapeutics: SPAC Exaggerations, Misleading Accounting, and China Questions

Muddy Waters remains short Chinook Therapeutics Inc (NASDAQ:KDNY). In addition to distorting clinical trial data,[1] Chinook has manipulated its financials. The misleading – if not improper – accounting, which seems an attempt to make Chinook appear more substantive than it is, primarily relates to transactions with its Chinese JV, SanReno Therapeutics. We adjust reported 2021 and 2022 revenues downward by -95.3% and -68.5%.[2]

In our initial report, we focused our concerns about Chinook on atrasentan, which we believe is highly unlikely to be approved by the FDA: We concluded that atrasentan a) is inefficacious for chronic kidney disease, and b) has been shown to be harmful to patients' cardiovascular health. We also discussed how AbbVie and Chinook seem to have systemically manipulated research findings and presentation on atrasentan to obscure these trial results. This update shows a larger pattern of deception, extending beyond trial data to financial reporting.

Chinook, in our view, combines the odious attributes of 2020 SPACs, dubious accounting for related party transactions, and China shenanigans. Chinook went public via reverse merger with what was essentially a SPAC during the Great Dash for Trash of 2020,[3] in which there seemingly was no exaggeration too great for any supposed growth story going public. Chinook's largest investor at the time of its reverse merger was Versant Ventures, which is also an investor in SanReno. (Since Chinook went public in October 2020, Versant has sold 61.5% of its Chinook shares.[4]) Chinook's two largest current investors, Samsara BioCapital and Frazier Life Sciences, are also major investors in SanReno, creating a significant conflict of interest in how Chinook presents and accounts for the joint venture. It is telling that Chinook's CMO, Alan Glicklich, departed the company in 2022 after having agreed to seemingly harsh confidentiality restrictions.[5] (According to Glicklich's LinkedIn, he has not gone to work elsewhere.)[6]

Chinook uses SanReno to overstate revenues and assets. Chinook recorded a non-cash investment of $41.2 million[7] in SanReno at SanReno's establishment in 2021.[8] This was almost entirely based on the deemed value of the atrasentan and BION-1301 licenses Chinook contributed to SanReno. Chinook then misleadingly – possibly improperly – recorded revenue from SanReno of $41.2 million.[9] Not only is the $41.2 million revenue figure effectively a round-trip of intangible assets (of suspect value), but it is questionable whether SanReno has substance. A credit report for SanReno, which should be based on mandatory financial reporting to the PRC government, shows that none of the purported investment funds from Chinook's joint venture partners have actually been contributed to SanReno's PRC entity.[10] We see no indication that SanReno has an actual office in China, with only a serviced office mentioned in the credit report referenced infra.[11] Even if the $40 million initial valuation of the SanReno investment were accurate (which would imply an $80 million total initial valuation for SanReno), the extra $1.2 million

[1] See "Chinook Therapeutics: Too Little, Too Late", published May 16, 2023: https://d.muddywatersresearch.com/tou/?redirect=/content/uploads/2023/05/MW_KDNY_20230516.pdf.
[2] See: *Chinook's Revenue 2020-2022: Reported vs. Adjusted*, infra.
[3] https://www.globenewswire.com/news-release/2020/10/05/2103580/0/en/Chinook-Therapeutics-Closes-Merger-with-Aduro-Biotech-and-Completes-115-Million-Private-Placement-Financing.html
[4] Per S&P Capital IQ, Versant owned 7,888,369 shares as of 12/31/2020, and owned 3,035,207 shares as of 3/31/2023.
[5] Chinook-Glicklich "Separation Agreement", 2022.
[6] https://www.linkedin.com/in/alanglicklich/
[7] $40 million for Series A preferred shares, $1.2 million for the stock warrant.
[8] Chinook 2021 10-K, pg. 77.
[9] Chinook 2021 10-K, pg. 77.
[10] SanReno Therapeutics (Shanghai) Credit Report.
[11] https://www.sanreno.com/CN/About.aspx

from a stock warrant should not have been included in revenue. In 2022, Chinook improperly recognized $4.2 million in cost reimbursements from SanReno as revenue, which should have been accounted for as reduction of costs.[12] Chinook apparently misreported revenue from Merck that should have been recorded as passthrough. In 2021, Chinook recognized $10 million in revenue from Merck, out of which it was required to pay well over half as consideration to the former owners of the royalty / milestone rights, referred to below as "CVR holders" (CVR = Contingent Value Rights).[13]

SanReno is both an unconsolidated JV and a seemingly related party, but Chinook deceptively fails to disclose either fact.[14] Chinook accounts for its investment in SanReno through the fair value method, instead of the equity method. This choice seems improper and misleading, because it isolates Chinook from SanReno's losses.[15] By any reasonable definition, Chinook meets the equity method test because it exerts significant influence on SanReno, sharing board members with it, holding 50% of the stock, providing it with technology, and possessing the right to nominate members to SanReno's board of directors.[16]

SanReno Therapeutics JV: Window Dressing Revenue to Make its Licenses Appear Valuable and Sustainable

Despite being a development-stage drug company, Chinook has manipulated its financials in myriad ways, including by manufacturing revenue through making a non-cash investment in a JV and round-tripping it as (non-cash) revenue, inflating revenue by claiming expense reimbursements as revenue, further inflating revenue by reporting passthrough revenues as gross revenues when they should have been reported as net, and avoiding consolidating losses by applying fair value accounting instead of equity method investment accounting. We therefore adjust reported 2021 and 2022 revenues downward by -95.3% and -68.5%.[17] We adjust 2021 and 2022 reported losses upward by 49.76% and 2.24%.[18]

In 2021 and 2022 respectively, Chinook reported sizable license and collaboration revenues of $51.6 and $6.1 million.[19] This revenue artificially reduced Chinook's increasing net losses, allowing it to report smaller 2021 and 2022 respective net losses of -$102.9 and -$187.9 million.[20]

Improper Revenue Recognition

Chinook's misleading revenue comes from (1) a non-cash investment gain from the original non-cash investment in SanReno Therapeutics, (2) likely improper revenue recognition for Chinook's non-recurring stock warrant for SanReno, (3) the likely improper recognition of SanReno's reimbursement payments as revenue (rather than reduction of costs), and (4) the likely improper recognition of

[12] Chinook 10-K 2022.
[13] Chinook 2021 10K, pg.78 (emphasis added), "The fair value of the contingent value rights liability also increased during 2021 due to the achievement of a development milestone under the terms of the agreement with Merck, which is payable to the CVR holders, net of permitted deductions. During the second quarter of 2021, Merck informed us that they intend to explore the potential benefits of the product candidate MK-5890, previously out-licensed to Merck by Aduro, in a phase 2 clinical study for a new indication. **This could result in potential milestone and royalty payments for the benefit of the CVR holders**."
[14] https://asc.fasb.org/323/showallinonepage/323-10-15-6, *Significant Influence: 323-10-15-6*
[15] Chinook 2022 10-K pg. 112
[16] Chinook 2021 10-K, pg. 106.
[17] See: *Chinook's Revenue 2020-2022: Reported vs. Adjusted*, infra.
[18] See: *Chinook's Revenue 2020-2022: Reported vs. Adjusted*, infra.
[19] 2021 and 2022 Chinook 10-K.
[20] 2021 and 2022 Chinook 10-K.

passthrough payments from Merck as revenue. Importantly, Chinook's joint venture partners in SanReno include three of its largest investors. On the back of these misrepresentations, Chinook's one-time largest investor, Versant Ventures, has sold 61.5% of its Chinook shares.[21]

Chinook initially deemed its licenses to SanReno to be worth $40.0 million. In November 2021, Chinook established SanReno Therapeutics as a joint venture intended to "develop, manufacture and commercialize kidney disease therapies in mainland China, Hong Kong, Macau, Taiwan and Singapore, or collectively, the Territory."[22] The phrase "kidney disease therapies" apparently refers to Chinook's atrasentan and BION-1301; therefore, the valuation of SanReno must be understood to be derived from the value of that intellectual property. But given our concerns about atrasentan and the substance of SanReno (discussed infra), that intellectual property is itself of questionable value.[23] Chinook and SanReno contemporaneously entered into the China License Agreement, under which, Chinook was to be compensated with preferred shares in SanReno for development and commercialization licenses.[24] Under the China License Agreement, SanReno gained the right to develop and commercialize both atrasentan and BION-1301 in the aforementioned "Territory".[25]

These agreements also give Chinook control that, as explained infra, give it sufficient control for equity method accounting to be applied. At the time of the licensing agreements, Chinook entered into a Shareholders Agreement with SanReno, under the terms of which Chinook has the right to nominate candidates for SanReno's board of directors.[26] Under the same Shareholders Agreement, SanReno agreed that "certain specified events (including certain liquidation events)" would require the approval of a supermajority of SanReno's Series A preferred shareholders, which in substance means the approval of Chinook and any one of Chinook's investors.[27]

The 50% of SanReno's shares not controlled by Chinook were acquired by an investor syndicate led by Frazier Healthcare Partners, Pivotal bioVenture Partners China, Versant Ventures, and Samsara BioCapital.[28] Shortly after SanReno's creation, Chinook management claimed that SanReno would have a potentially "very significant" impact on Chinook's revenues.[29] Since then, SanReno has continued to be featured in Chinook's annual reports and presentations.[30] Chinook claims that this is because the renal disorders it aims to treat are more prevalent in East Asian populations.[31]

Chinook, in our opinion, improperly recorded collaboration and licensing revenues from SanReno in 2021 and 2022. This seems to have been an intentional mischaracterization to create the false impression that Chinook's pipeline, especially atrasentan, can be easily monetized and generate repeatable and sustainable revenue. Under GAAP, revenue must be generated in the course of ordinary operations, which means the ability to generate continuous and recurring income.[32]

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[21] Source: S&P Capital IQ.
[22] 2021 Chinook 10-K, pp. 4, 74.
[23] See "Chinook Therapeutics: Too Little, Too Late", published May 16, 2023: https://d.muddywatersresearch.com/tou/?redirect=/content/uploads/2023/05/MW_KDNY_20230516.pdf.
[24] 2021 Chinook 10-K, pg. 74.
[25] 2021 Chinook 10-K, pg. 105.
[26] 2021 Chinook 10-K, pg. 106.
[27] 2021 Chinook 10-K, pg. 106.
[28] 2021 Chinook 10-K, pg. 105.
[29] For example, the financial impact of the revenue streams from SanReno JV was described potentially "very significant" in the 2022 JPM Healthcare conference (Jan 4 2022).
[30] For example, Chinook 2023 corporate presentation, Slide 25
[31] 2021 Chinook 10-K, pg. 4.
[32] https://www.investopedia.com/terms/r/revenue.asp

$40.0 million of Chinook's reported 2021 revenue comes from the deemed value of its non-cash contribution to SanReno. The source of this revenue is consideration from a JV investment transaction; therefore, it should have been booked as income from investing, not operating, activities. Even assuming the valuation was reasonable, which we do not (discussed infra), the $40.0 million should be recorded as "other income" or the "gains from investment", not revenue. The establishment of SanReno is clearly not a recurring, ordinary operating activity.

> *Collaboration and License Revenue*
>
> Total revenue was $51.6 million for the year ended December 31, 2021, an increase of $50.8 million compared to $0.8 million for the year ended December 31, 2020. The increase in revenue was primarily due to $41.2 million of non-cash revenue recognized under our license agreement with SanReno and a development milestone of $10.0 million recognized under our agreement with Merck and Co, Inc., or Merck. The agreement with Merck was acquired through the Merger. For additional information, refer to Note 11 "Collaboration and License Agreements".

Source: Chinook 2021 10-K, Pg. 77

SanReno's seems to lack substance thus far, further calling into question the reasonableness of the $40.0 million valuation. The Shanghai operating entity was only set up on December 30, 2021, meaning that SanReno has no record of industry success (or even failure). As of the end of 2022 (and likely even to date), SanReno's PRC operating entity apparently had not received any of the planned equity investment,[33] making the revenue reported from it almost farcical. One and a half years after its establishment, the website for the JV's China entity, SanReno Shanghai,[34] shows that SanReno has seemingly made little progress in setting up its China trials or building out its team, and that it is still without its own physical office.[35] SanReno Shanghai applied to start an initial trial for BION-1301 on healthy volunteers only in November 2022, but recruitment appears to have not yet started.[36] Therefore at year end 2021 and 2022, we believe that trial expenses had not yet begun to be incurred at a significant level, if at all.

[33] SanReno Therapeutics (Shanghai) Credit Report,. April 27, 2023. See below.
[34] 信瑞诺医药(上海)有限公司
[35] https://www.sanreno.com/CN/Contact.aspx. An office mentioned in SanReno's Shanghai filings seems to be a service office.
[36] https://www.yscro.com/cde/6f39ab7e5ed00ed8a24c205e1ac90d45.html

二、基本信息

2.1 基本信息

Basic information

企业名称	信瑞诺医药（上海）有限公司	**英文名**	Xinruinuo Pharmaceutical (Shanghai) Co., Ltd.
曾用名	-	**注册号**	310142400009023
统一社会信用代码	91310000MA7FTFH27Y	**纳税人识别号**	91310000MA7FTFH27Y
进出口企业代码	-	**法定代表人**	黄皓宇
组织机构代码	MA7FTFH2-7	**注册资本**	2000 万美元 Reg. capital USD 20m
实缴资本	- Paid-in capital USD 0	**国标行业**	科学研究和技术服务业
企业类型	有限责任公司（港澳台法人独资）	**登记状态**	存续（在营、开业、在册）
成立日期	2021-12-30 Est. date	**核准日期**	2023-02-09 Review date
营业期限	2021-12-30 至 2051-12-29	**登记机关**	自由贸易试验区临港新片区市场监督管理局
人员规模	-	**参保人数**	0（2021 年报） 0 employees in 2021
注册地址	中国（上海）自由贸易试验区临港新片区新杨公路 860 号 10 幢		
经营范围	一般项目：医学研究和试验发展（人体干细胞、基因诊断与治疗技术开发和应用除外，除医疗机构经营）；工程和技术研究和试验发展；从事生物科技（人体干细胞、基因诊断与治疗技术开发和应用除外）领域内的技术开发、技术咨询、技术转让、技术服务、技术交流、技术推广；生物化工产品技术研发（人体干细胞、基因诊断与治疗技术开发和应用除外）；企业管理；信息咨询服务（不含许可类信息咨询服务）；信息技术咨询服务；市场营销策划；贸易经纪；销售代理；第二类医疗器械销售；第二类医疗器械租赁；货物进出口；技术进出口；进出口代理；计算机软硬件及辅助设备批发；计算机软硬件及辅助设备零售；电子产品销售；通讯设备销售（除依法须经批准的项目外，凭营业执照依法自主开展经营活动）。许可项目：第三类医疗器械租赁；第三类医疗器械经营（依法须经批准的项目，经相关部门批准后方可开展经营活动，具体经营项目以相关部门批准文件或许可证件为准）。		

2.2 股东信息（1）

Shareholder information (1): SanReno Therapeutics (Hong Kong) Ltd.

共 1 位股东，最大的股东是 SanReno Therapeutics (Hong Kong) Limited，股东类型为 外国(地区)企业，出资比例为 100%。

Source: April 2023 SanReno Shanghai Credit Report

The remaining $1.2 million is a valuation gain for additional warrants provided in the transaction, which was also improper.[37] Because the license granted to SanReno covers an exclusive area, it could not grant the same license to other entities in the same region, and, being a one-time event, isn't recurring.[38]

Later, in 2022, Chinook recognized $4.2 million in cost reimbursements as revenue.[39] There are two problems with this claim. First, because the payment is a cost reimbursement, it should be accounted for as a reduction of costs. Second, SanReno is both an unconsolidated JV[40] and a seemingly related party. Chinook retained 50% shares of the newly formed SanReno, along with the right to nominate candidates for SanReno's board of directors. Much of the remaining 50% of SanReno's voting securities were acquired by three of Chinook's largest investors – a syndicate including Frazier Healthcare Partners, Versant Ventures, and Samsara BioCapital for a $40 million investment.[41] Versant and Samsara were already investors investors in Chinook,[42] and two key members, including Chinook's COO[43] and a Versant Managing Director,[44] held overlapping positions across the three companies. However, Chinook does not make specific disclosures about these transactions being with a related party.

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[37] Chinook 2022 2022 10K, pg.105 (emphasis added), "The 'China License Agreement' is the exchange of the license for investment in JV SanReno. On November 24, 2021, we entered into agreements related to the formation of SanReno, a corporation established to develop, manufacture and commercialize kidney disease therapies in mainland China, Hong Kong, Macau, Taiwan and Singapore (collectively, the "Territory"). In connection with the formation of SanReno and pursuant to the China License Agreement entered into between Chinook and SanReno on November 24, 2021, Chinook granted SanReno exclusive licenses under certain intellectual property to develop and commercialize atrasentan and BION-1301 in the Territory for use in all human indications. **In return, Chinook received 40.0 million preferred shares in SanReno representing 50% ownership of the outstanding voting securities and a warrant to purchase a total of 5.0 million common shares of SanReno at an exercise price of $0.01 per share upon the attainment of regulatory exclusivity for atrasentan in the Territory.** Such warrant will only be exercisable if and provided that SanReno obtains, before the 10-year anniversary of the closing of the formation of SanReno, the regulatory exclusivity for atrasentan in China for at least three years commencing from the New Drug Application approval by the National Medical Product Administration of China. **The warrant will have a five-year exercise period after it becomes exercisable upon satisfaction of the exercise conditions and was valued at $1.2 million on the grant date based on the probability of exercise of the warrant and the market for such instruments.** An investor syndicate led by Frazier Healthcare Partners and Pivotal bioVenture Partners China, along with existing Chinook investors Versant Ventures and Samsara BioCapital, has invested $40.0 million in exchange for the remaining 50% of the outstanding voting securities of SanReno. Refer to Note 11 "Collaboration and License Agreements" for more information regarding the China License Agreement.

[38] https://www.sec.gov/Archives/edgar/data/1435049/000156459022010862/Chinook-ex1026_1392.htm, "Licensee wishes to obtain from Licensor, and Licensor is willing to grant to Licensee, an exclusive license to research, develop, manufacture and commercialize such Licensed Product in the Territory, all on the terms and conditions set forth herein."

[39] Chinook 2022 10K, pg.114, "For the year ended December 31, 2022, we recognized revenue of $4.2 million under the China License Agreement for costs reimbursed related to opt-in global studies and manufacturing and supply services."

[40] Chinook 2021 10-K, pg. 95

[41] Chinook 1Q22 10-Q, pg. 13.

[42] Chinook 1Q22 10-Q, 10-Q, pg. 13.

[43] https://www.sanreno.com/About_Team.aspx, https://web.archive.org/web/20201024092545/https://www.versantventures.com/team/tom-frohlich Chinook COO Tom Frohlich is both an Entrepreneur-in-Residence at Versant since at least 2020 and a member of the SanReno Therapeutics Board of Directors.

[44] https://www.versantventures.com/team/jerel-davis https://www.linkedin.com/in/jereldavis/, Versant Managing Director Jerel Davis is also a member of Chinook's Board of Directors.

In 2021, Chinook recognized $10 million revenue related to Aduro from Merck.[45] Chinook was obligated to recognize milestone and royalty payments out of this sum, per the terms of the agreement it had inherited from Aduro.[46] The $10 million milestone revenue is passthrough revenue in substance. Chinook had inherited both the potential milestone payment and obligations to the contingent value rights (CVR) holders from Aduro. According to the agreement between Aduro and the CVR holders,[47] Chinook was obliged to pay the seller after making limited, permitted deductions.[48] Thus, the $10 million in revenue should be reported per net, not gross revenue accounting. Approximately $8 million would be payable by estimating the permitted cost deduction at 20%, because the deductions are limited to tax and the out-of-pocket costs.[49] $7.5 million was subsequently paid to CVR holders in 2022.[50]

At the same time, Chinook recorded expenses that increased its contingent liabilities payable to CVR holders by $25.8 million.[51,52]

Adjustments to Chinook's Revenue

As explained above, the $41.2 million revenue recognized in 2021 does not belong in the top line, but should be reported as investment income in other comprehensive income. The $4.2 million recognized in 2022 should be reported in and netted against operating expenses as a cost reimbursement. Approximately $8 million of the $10 million in revenue recognized from the Merck milestone achievement should not be included in the gross revenue because it is passthrough revenue.

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[45] Chinook 2022 10-K, pg. 77 (emphasis added), "a development milestone of $10.0 million recognized under our agreement with Merck and Co, Inc., or Merck. The agreement with Merck was acquired through the Merger."
[46] Chinook 2021 10-K, pg. 78, "The fair value of the contingent value rights liability also increased during 2021 due to the achievement of a development milestone under the terms of the agreement with Merck, which is payable to the CVR holders, net of permitted deductions. During the second quarter of 2021, Merck informed us that they intend to explore the potential benefits of the product candidate MK-5890, previously out-licensed to Merck by Aduro, in a phase 2 clinical study for a new indication. **This could result in potential milestone and royalty payments for the benefit of the CVR holders**."
[47] Per 2021 10K, pg. 96, Chinook assumed an existing out-license agreement with Merck under which all performance obligations of Aduro were completed prior to the Merger: "We are eligible to receive future contingent payments pursuant to Merck's achievement of certain development, commercial and net sales milestones for a product candidate. In addition, we are eligible to receive royalties based on net sales of the product. Any such milestones and royalties earned will be payable by us to the CVR [or **Contingent Value Rights**] holders, net of deductions permitted under the agreement with the CVR holders, including taxes and certain other expenses."
[48] https://www.sec.gov/Archives/edgar/data/1435049/000156459020051403/Chinook-ex108_287.htm
[49] .8*$10,000,000=$8,000,000. We believe 20% is a reasonable estimate of the deductions here, because they were limited to tax and out of pocket costs. See Chinook 2021 10-K, pg. 96.
[50] Chinook 2022 10-K, pg. 68.
[51] Chinook 2021 10-K, pg.78.
[52] 27.3-1.5=25.8 Chinook 2022 10-K, pg.78 (emphasis added): For the year ended December 31, 2021 and 2020, the aggregate change in fair value of the CVR and the contingent consideration liabilities was **$27.3 million and $1.5 million**, respectively, and was recorded in the consolidated statement of operations and comprehensive loss. The change in the fair value during the periods resulted from a change in estimate of the potential future proceeds derived from Aduro's license agreement with Merck. Additionally, the change in fair value during the 2021 period resulted from the sale of certain of our non-renal assets in exchange for preferred shares in Sairopa B.V. ("Sairopa") during the second quarter of 2021. We will hold the shares in Sairopa until there is a liquidation event at which time, in accordance with the CVR agreement, 50% of any net proceeds will accrue to the benefit of the CVR holders, net of deductions permitted under the CVR Agreement, including taxes and certain other expenses. Refer to Note 10 "Equity Method Investment" for more information. In addition, we identified measurement period adjustments during 2021 which reduced the CVR and contingent consideration liabilities. Refer to Note 3 "Reverse Merger and Contingent Value Rights" for more information.

In the table below, we present the collaboration and license revenues adjusted to remove the problematically reported top line revenues.

Chinook's Revenue 2020-2022: Reported vs Adjusted

$000	2020	2021	2022
Collaboration and license revenue as reported	827	51,625	6,128
Adjustments			
- Gain from contribution to JV SanReno		(41,200)	
- Revenue from JV SanReno		-	(4,200)
- Merck license rev		(8,000)	
Collaboration and license revenue as adjusted	827	2,425	1,928

In 2022, Chinook reported that it had resolved issues with material weaknesses in internal controls over financial reporting. Yet these instances of intentional – albeit clumsy – financial manipulation have not been restated.[53]

Reducing Losses through Improper Application of Fair Value Accounting for the SanReno JV

Chinook, improperly in our view, avoids consolidating losses from SanReno by accounting for the JV as investment securities at fair value,[54] rather than using the equity method. We suspect that this is intentionally misleading.

Chinook uses the fair value method to book and indeed mischaracterize non-cash investment income and cost reimbursements as revenue while isolating itself from SanReno's losses. Were Chinook to use the equity method, it would have recognized only 50% of the (non-cash) payment, which would simultaneously have been offset by a 50% share of SanReno's losses. Instead, Chinook reported significant revenue with a 100% operating profit margin.

We believe that according to FASB standards and even those its auditor, PwC, Chinook's relationship with SanReno meets the criteria for significant influence. It should therefore be reported according to equity method:[55,56]

FASB lays out the criteria for "significant influence" as follows:

> *Ability to exercise significant influence over operating and financial policies of an investee may be indicated in several ways, including the following (emphasis added):*
>
> ***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***

[53] Chinook 2022 10-K, pg. 38
[54] Chinook 2022 10-K pg. 112
[55] https://asc.fasb.org/323/showallinonepage/323-10-15-6, *Significant Influence: 323-10-15-6*
[56] https://viewpoint.pwc.com/dt/us/en/pwc/accounting_guides/equity_method_of_accounting/Equity_method_account/chapter1/11_overview_of.html

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).

The Sairopa JV, where Chinook holds a 36% stake, stands out in sharp contrast. There, Chinook recognizes it has significant influence and reports the JV as an equity investment, including its share of losses.[57,58] The benefits of treating SanReno as an unrelated party and valuing the investment at fair value are obvious:

- The $41.2 million valuation for SanReno, equaling approximately 25% of the non-current assets, makes the balance sheet appear larger.
- The fair value method avoids recognizing proportionate losses.
- The fair value method avoids disclosing details about SanReno's financial performance, e.g. cash, total assets and equity, revenue and profit, thereby preventing Chinook's investors from seeing that SanReno had little to no operations during the reporting years 2021 and 2022 – while Chinook booked $44.4 million of total revenue from the joint venture.

The application of fair value accounting for the SanReno JV is a convenient mechanism by which Chinook can inflate its revenues and decrease its expenses, minimizing its near-term losses and setting itself up for potential future profit inflation. Chinook and its partners on the SanReno board benefit as SanReno's cash and non-cash transfers to Chinook are counted as Chinook's income and profit.

[57] Chinook 2022 10-K pg. 113, "As of December 31, 2022, we own a 36 % interest in Sairopa. We determined that we have the ability to exercise **significant influence** over Sairopa but do not have a controlling interest. Therefore, the investment in Sairopa was accounted for using the equity method. Judgment regarding the level of influence over each equity method investment includes considering key factors such as ownership interest, representation on the board of directors, and participation in policy-making decisions."
[58] Chinook 2022 10-K pg. 83