PBE IPSAS 36: INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Version 1: 2017

Effective Periods Beginning
1 January 2019

SCOPE AND OBJECTIVE

- The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.
- This standard applies to all Tier 1 and 2 entities when accounting for investments in associates and joint ventures. It is applied by all entities that are investors with significant influence over, or joint control of, an investee where the investment leads to the holding of a **quantifiable** ownership interest.
- **This standard only applies to quantifiable ownership interests.**

KEY DEFINITIONS

Associate: An entity over which the investor has significant influence.

Joint arrangement: An arrangement of which two or more parties have joint control.

Joint control: The agreed sharing of control of an arrangement by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Joint venture: A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Binding arrangement: An arrangement that confers enforceable rights and obligations on the parties to it as if it were in the form of a contract. It includes rights from contracts or other legal rights.

Equity method: A method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets/equity of the associate or joint venture. The investor's surplus or deficit includes its share of the investee's surplus or deficit and the investor's other comprehensive revenue and expense includes its share of the investee's other comprehensive revenue and expense.

Significant influence: The power to participate in the financial and operating policy decisions of another entity but is not control or joint control of those policies.

APPLICATION OF THE EQUITY METHOD

An entity with joint control of, or significant influence over, an investee accounts for its investment in an associate or a joint venture using the equity method except when that investment qualifies for exemption (see section below).

EXEMPTIONS FROM APPLYING THE EQUITY METHOD

An entity need not apply the equity method to its investment in an associate or a joint venture if the entity is a controlling entity that is exempt from preparing consolidated financial statements by the scope exception in paragraph 5 of PBE IPSAS 35 *Consolidated Financial Statements* or if all of the following apply:

(a) The entity itself is a controlled entity and the information needs of users are met by its controlling entity's consolidated financial statements, and, in the case of a partially owned entity, all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not applying the equity method.

(b) The entity's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).

(c) The entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation, for the purpose of issuing any class of instruments in a public market.

(d) * The ultimate or any intermediate controlling entity of the entity produces financial statements available for public use that comply with PBE Standards, in which controlled entities are consolidated or are measured at fair value in accordance with PBE IPSAS 35.

DISCONTINUING THE USE OF THE EQUITY METHOD

Discontinue the use of the equity method from the date when the investment ceases to be an associate or a joint venture as follows:

- If the investment becomes a controlled entity, the entity accounts for its investment in accordance with PBE IFRS 3 *Business Combinations* and PBE IPSAS 35.
- If the retained interest in the former associate or joint venture is a financial asset, the entity measures the retained interest at fair value in accordance with PBE IPSAS 29 *Financial Instruments: recognition and Measurement*.
- The entity recognises in surplus or deficit any difference between:
    - The fair value (or, where relevant, the carrying amount) of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture; and
    - The carrying amount of the investment at the date the equity method was discontinued.

EVIDENCE OF SIGNIFICANT INFLUENCE

Whether an investor has significant influence over the investee is a **matter of judgement** based on the nature of the relationship between the investor and the investee.

The existence of significant influence by an entity is usually evidenced in one or more of the following ways:

(a) Representation on the board of directors or equivalent governing body of the investee;

(b) Participation in policy-making processes, including participation in decisions about dividends or similar distributions;

(c) Material transactions between the entity and its investee;

(d) Interchange of managerial personnel; or

(e) Provision of essential technical information.

TRANSITION PROVISIONS

The transitional provisions for changing from proportionate consolidation to the equity method, or from the equity method to accounting for assets and liabilities in respect of a joint operation are set out in PBE IPSAS 37 *Joint Arrangements*.

DISCLOSURE

Refer to PBE IPSAS 38 *Disclosure of Interests in Other Entities*.

TIER 2 NZ IFRS RDR REPORTERS

NZ IFRS RDR reporters are not required to comply with the criterion marked with *.