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NZ ACCOUNTING STANDARDS BOARD

EXPOSURE DRAFT NZASB 2016-3

PUBLIC BENEFIT ENTITY INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 36 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (PBE IPSAS 36)

This [draft] Standard[1] was issued on [Date] by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This [draft] Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [Date].

Reporting entities that are subject to this [draft] Standard are required to apply the [draft] Standard in accordance with the effective date set out in paragraph 51.1.

In finalising this [draft] Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This [draft] New Zealand Tier 1 and Tier 2 Public Benefit Entity Accounting Standard has been issued as a result of a new International Public Sector Accounting Standard.

This [draft] Standard, when applied, supersedes PBE IPSAS 7 *Investments in Associates*.

[1] References to "this Standard" throughout this Exposure Draft should be read as referring to "this draft Standard". Similarly references to other proposed PBE Standards issued in conjunction with this Exposure Draft should be read as references to "draft PBE Standards".

PBE IPSAS 36 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

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PBE IPSAS 36—INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

CONTENTS

	Paragraph
Objective	1
Scope	1.1–7
Definitions	8–9
Binding Arrangement	9
Significant Influence	10–15
Equity Method	16–21.1
Application of the Equity Method	22–48
Exemptions from Applying the Equity Method	23–25
Classification as Held for Sale	25.1–25.2
Discontinuing the Use of the Equity Method	26–27
Changes in Ownership Interest	28
Equity Method Procedures	29–42
Impairment Losses	43–48
Separate Financial Statements	49
Transitional Provisions	50
Effective Date	51–52
Withdrawal and Replacement of PBE IPSAS 7 (September 2014)	53–53.1
Appendix A: Amendments to Other Standards	
Basis for Conclusions	
IPSASB Basis for Conclusions	
Comparison with IPSAS 36	

Public Benefit Entity International Public Sector Accounting Standard 36 *Investments in Associates and Joint Ventures* is set out in paragraphs 1–53.1 and Appendix A. All the paragraphs have equal authority. PBE IPSAS 36 should be read in the context of its objective, the Basis for Conclusions and Standard XRB A1 *Application of the Accounting Standards Framework*. PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. 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.

Scope

1.1 **This Standard applies to Tier 1 and Tier 2 public benefit entities.**

1.2 **A Tier 2 entity is not required to comply with the requirements in this Standard denoted with an asterisk (*). Where a Tier 2 entity elects to apply a disclosure concession it shall comply with any RDR paragraphs associated with that concession**.

2. **An entity that prepares and presents financial statements shall apply this Standard in accounting for investments in associates and joint ventures.**

3. **This Standard shall be 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.**

4. This Standard provides the basis for accounting for ownership interests in associates and joint ventures. That is, the investment in the other entity confers on the entity the risks and rewards incidental to an ownership interest. This Standard applies only to quantifiable ownership interests. This includes ownership interests arising from investments in the formal equity structure of another entity. A formal equity structure means share capital or an equivalent form of capital, such as units in a property trust. Quantifiable ownership interests may also include ownership interests arising from other investments in which the entity's ownership interest can be measured reliably (for example, interests in a partnership). Where the equity structure of the other entity is poorly defined, it may not be possible to obtain a reliable measure of the ownership interest.

5. Some contributions made to or by public benefit entities may be referred to as an "investment," but may not give rise to an ownership interest. For example, a public sector entity may make a substantial investment in the development of a hospital that is owned and operated by a charity. While such contributions are non-exchange in nature, they allow the public sector entity to participate in the operation of the hospital, and the charity is accountable to the public sector entity for its use of public monies. However, the contributions made by the public sector entity do not constitute an ownership interest, as the charity could seek alternative funding and thereby prevent the public sector entity from participating in the operation of the hospital. Accordingly, the public sector entity is not exposed to the risks, nor does it enjoy the rewards, that are incidental to an ownership interest.

6. [Not used.]

7. [Not used.]

Definitions

8. **The following terms are used in this Standard with the meanings specified:**

   An <u>associate</u> is an entity over which the investor has significant influence.

   <u>Binding arrangement</u>: For the purposes of this Standard, a binding arrangement is 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.

   <u>Consolidated financial statements</u> are the financial statements of an economic entity in which assets, liabilities, net assets/equity, revenue, expenses and cash flows of the controlling entity and its controlled entities are presented as those of a single economic entity.

   The <u>equity method</u> is 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.

A joint arrangement is an arrangement of which two or more parties have joint control.

Joint control is 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.

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

A joint venturer is a party to a joint venture that has joint control of that joint venture.

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

Terms defined in other PBE Standards are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately. The following terms are defined in either PBE IPSAS 34 *Separate Financial Statements*, PBE IPSAS 35 *Consolidated Financial Statements* or PBE IPSAS 37 *Joint Arrangements*: benefits, control, controlled entity, controlling entity, economic entity, investment entity, joint operation, power and separate financial statements.

Binding Arrangement

9. Binding arrangements can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. Statutory mechanisms such as legislative or executive authority can also create enforceable arrangements, similar to contractual arrangements, either on their own, or in conjunction with contracts between the parties.

Significant Influence

10. 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, and on the definition of significant influence in this Standard. This Standard applies only to those associates in which an entity holds a quantifiable ownership interest either in the form of a shareholding or other formal equity structure or in another form in which the entity's interest can be measured reliably.

11. If an entity holds a quantifiable ownership interest and it holds, directly or indirectly (e.g., through controlled entities), 20 per cent or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the entity holds, directly or indirectly (e.g., through controlled entities), less than 20 per cent of the voting power of the investee, it is presumed that the entity does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an entity from having significant influence.

12. 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.

13. An entity may own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares, or other similar instruments that have the potential, if exercised or converted, to give the entity additional voting power or to reduce another party's voting power over the financial and operating policies of another entity (i.e., potential voting rights). The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether an entity has significant influence. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event.

14. In assessing whether potential voting rights contribute to significant influence, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other binding arrangements whether considered individually or in combination) that affect potential rights, except the intentions of management and the financial ability to exercise or convert those potential rights.

15. An entity loses significant influence over an investee when it loses the power to participate in the financial and operating policy decisions of that investee. The loss of significant influence can occur with or without a change in absolute or relative ownership levels. It could occur, for example, when an associate becomes subject to the control of a government, a court or an administrator. It could also occur as a result of a binding arrangement.

Equity Method

16. Under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the surplus or deficit of the investee after the date of acquisition. The investor's share of the investee's surplus or deficit is recognised in the investor's surplus or deficit. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive revenue and expense. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share of those changes is recognised in the investor's other comprehensive revenue and expense (see PBE IPSAS 1 *Presentation of Financial Statements*).

17. The recognition of revenue on the basis of distributions received may not be an adequate measure of the revenue earned by an investor on an investment in an associate or a joint venture because the distributions received may bear little relation to the performance of the associate or joint venture. Because the investor has joint control of, or significant influence over, the investee, the investor has an interest in the associate's or joint venture's performance and, as a result, the return on its investment. The investor accounts for this interest by extending the scope of its financial statements to include its share of the surplus or deficit of such an investee. As a result, application of the equity method provides more informative reporting of the investor's net assets/equity and surplus or deficit.

18. When potential voting rights or other derivatives containing potential voting rights exist, an entity's interest in an associate or a joint venture is determined solely on the basis of existing ownership interests and does not reflect the possible exercise or conversion of potential voting rights and other derivative instruments, unless paragraph 19 applies.

19. In some circumstances, an entity has, in substance, an existing ownership interest as a result of a transaction that currently gives it access to the benefits associated with an ownership interest. In such circumstances, the proportion allocated to the entity is determined by taking into account the eventual exercise of those potential voting rights and other derivative instruments that currently give the entity access to the benefits.

20. PBE IPSAS 29 *Financial Instruments: Recognition and Measurement* does not apply to interests in associates and joint ventures that are accounted for using the equity method. When instruments containing potential voting rights in substance currently give access to the benefits associated with an ownership interest in an associate or a joint venture, the instruments are not subject to PBE IPSAS 29. In all other cases, instruments containing potential voting rights in an associate or a joint venture are accounted for in accordance with PBE IPSAS 29.

21. [Not used.]

21.1 Unless an investment, or a portion of an investment, in an associate or a joint venture is classified as held for sale in accordance with PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the investment, or any retained interest in the investment not classified as held for sale, shall be classified as a non-current asset.

Application of the Equity Method

22. **An entity with joint control of, or significant influence over, an investee shall account for its investment in an associate or a joint venture using the equity method except when that investment qualifies for exemption in accordance with paragraphs 23–25.**

Exemptions from Applying the Equity Method

23. 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 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.

RDR23.1 A Tier 2 entity is not required to comply with paragraph 23(d). In order to qualify for the exemption not to apply the equity method to an investment in an associate or a joint venture, an entity must still comply with all the other conditions in paragraph 23.

24. When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure investments in those associates and joint ventures at fair value through surplus or deficit in accordance with PBE IPSAS 29. An investment entity will, by definition, have made this election.

25. When an entity has an investment in an associate, a portion of which is held indirectly through a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that portion of the investment in the associate at fair value through surplus or deficit in accordance with PBE IPSAS 29 regardless of whether the venture capital organisation, or the mutual fund, unit trust and similar entities including investment-linked insurance funds, has significant influence over that portion of the investment. If the entity makes that election, the entity shall apply the equity method to any remaining portion of its investment in an associate that is not held through a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds. When an entity has an investment in an associate, a portion of which is held indirectly through an investment entity, the entity shall measure that portion of the investment at fair value through surplus or deficit in accordance with PBE IPSAS 29.

Classification as Held for Sale

25.1 An entity shall apply PBE IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale shall be accounted for using the equity method until disposal of the portion that is classified as held for sale takes place. After the disposal takes place, an entity shall account for any retained interest in the associate or joint venture in accordance with PBE IPSAS 29 unless the retained interest continues to be an associate or a joint venture, in which case the entity uses the equity method.

25.2 When an investment, or a portion of an investment, in an associate or a joint venture previously classified as held for sale no longer meets the criteria to be so classified, it shall be accounted for using the equity method retrospectively as from the date of its classification as held for sale. Financial statements for the periods since classification as held for sale shall be amended accordingly.

Discontinuing the Use of the Equity Method

26. **An entity shall discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture as follows:**

    (a) **If the investment becomes a controlled entity, the entity shall account for its investment in accordance with PBE IFRS 3 *Business Combinations* and PBE IPSAS 35.**

    (b) **If the retained interest in the former associate or joint venture is a financial asset, the entity shall measure the retained interest at fair value. The fair value of the retained interest shall be regarded as its fair value on initial recognition as a financial asset in accordance with PBE IPSAS 29. If an entity is precluded by PBE IPSAS 29, paragraphs AG113 and AG114 from measuring the retained interest at fair value, the entity shall measure the retained interest at the carrying amount of the investment at the date that it ceases to be an associate or joint venture and that carrying amount shall be regarded as its cost on initial recognition as a financial asset in accordance with PBE IPSAS 29. The entity shall recognise in surplus or deficit any difference between:**

        (i) **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**

        (ii) **The carrying amount of the investment at the date the equity method was discontinued.**

    (c) **When an entity discontinues the use of the equity method, the entity shall account for all amounts previously recognised in other comprehensive revenue and expense in relation to that investment on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities.**

26.1 Therefore, if a gain or loss previously recognised in other comprehensive revenue and expense by the investee would be reclassified to surplus or deficit on the disposal of the related assets or liabilities, the entity reclassifies the gain or loss from net assets/equity to surplus or deficit (as a reclassification adjustment) when the equity method is discontinued. For example, if an associate or a joint venture has cumulative exchange differences relating to a foreign operation and the entity discontinues the use of the equity method, the entity shall reclassify to surplus or deficit the gain or loss that had previously been recognised in other comprehensive revenue and expense in relation to the foreign operation.

27. **If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest.**

Changes in Ownership Interest

28. If an entity's ownership interest in an associate or a joint venture is reduced, but the investment continues to be classified either as an associate or a joint venture respectively, the entity shall reclassify to surplus or deficit the proportion of the gain or loss that had previously been recognised in other comprehensive revenue and expense relating to that reduction in ownership interest if that gain or loss would be required to be reclassified to surplus or deficit on the disposal of the related assets or liabilities.

Equity Method Procedures

29. Many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in PBE IPSAS 35. Furthermore, the concepts underlying the procedures used in accounting for the acquisition of a controlled entity are also adopted in accounting for the acquisition of an investment in an associate or a joint venture.

30. An economic entity's share in an associate or a joint venture is the aggregate of the holdings in that associate or joint venture by the controlling entity and its controlled entities. The holdings of the economic entity's other associates or joint ventures are ignored for this purpose. When an associate or a joint venture has controlled entities, associates or joint ventures, the surplus or deficit, other comprehensive revenue and expense and net assets taken into account in applying the equity method are those recognised in the associate's or joint venture's financial statements (including the associate's or joint venture's share of the surpluses or deficits, other comprehensive revenue and expense and net assets

of its associates and joint ventures), after any adjustments necessary to give effect to uniform accounting policies (see paragraphs 37–39).

31. Gains and losses resulting from "upstream" and "downstream" transactions between an entity (including its consolidated controlled entities) and its associate or joint venture are recognised in the entity's financial statements only to the extent of unrelated investors' interests in the associate or joint venture. "Upstream" transactions are, for example, sales of assets from an associate or a joint venture to the investor. "Downstream" transactions are, for example, sales or contributions of assets from the investor to its associate or its joint venture. The investor's share in the associate's or joint venture's gains or losses resulting from these transactions is eliminated.

32. When downstream transactions provide evidence of a reduction in the net realisable value of the assets to be sold or contributed, or of an impairment loss of those assets, those losses shall be recognised in full by the investor. When upstream transactions provide evidence of a reduction in the net realisable value of the assets to be purchased or of an impairment loss of those assets, the investor shall recognise its share in those losses.

33. The contribution of a non-monetary asset to an associate or a joint venture in exchange for an equity interest in the associate or joint venture shall be accounted for in accordance with paragraph 31, except when the contribution lacks commercial substance, as that term is described in PBE IPSAS 17 *Property, Plant and Equipment*. If such a contribution lacks commercial substance, the gain or loss is regarded as unrealised and is not recognised unless paragraph 34 also applies. Such unrealised gains and losses shall be eliminated against the investment accounted for using the equity method and shall not be presented as deferred gains or losses in the entity's consolidated statement of financial position or in the entity's statement of financial position in which investments are accounted for using the equity method.

34. If, in addition to receiving an equity interest in an associate or a joint venture, an entity receives monetary or non-monetary assets, the entity recognises in full in surplus or deficit the portion of the gain or loss on the contribution relating to the monetary or non-monetary assets received.

35. An investment is accounted for using the equity method from the date on which it becomes an associate or a joint venture. On acquisition of the investment, any difference between the cost of the investment and the entity's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as follows:

    (a) When an entity has included goodwill relating to an associate or a joint venture in the carrying amount of the investment, amortisation of that goodwill is not permitted.

    (b) Any excess of the entity's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as revenue in the determination of the entity's share of the associate or joint venture's surplus or deficit in the period in which the investment is acquired.

    Appropriate adjustments to the entity's share of the associate's or joint venture's surplus or deficit after acquisition are made in order to account, for example, for depreciation of the depreciable assets based on their fair values at the acquisition date. Similarly, appropriate adjustments to the entity's share of the associate's or joint venture's surplus or deficit after acquisition are made for impairment losses such as for property, plant and equipment or, where relevant, goodwill.

36. **The most recent available financial statements of the associate or joint venture are used by the entity in applying the equity method. When the end of the reporting period of the entity is different from that of an associate or a joint venture the entity either:**

    (a) **Obtains, for the purpose of applying the equity method, additional financial information as of the same date as the financial statements of the entity; or**

    (b) **Uses the most recent financial statements of the associate or joint venture adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the entity's financial statements.**

37. **The entity's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances.**

38. Except as described in paragraph 39, if an associate or a joint venture uses accounting policies other than those of the entity for like transactions and events in similar circumstances, adjustments shall be made to make the associate's or joint venture's accounting policies conform to those of the entity when the associate's or joint venture's financial statements are used by the entity in applying the equity method.

39. **Notwithstanding the requirements in paragraph 38, if an entity has an interest in an associate or a joint venture that is an investment entity, the entity shall, when applying the equity method, retain the fair value measurement applied by that investment entity associate or joint venture to its interest in controlled entities.**

40. If an associate or a joint venture has outstanding cumulative preference shares that are held by parties other than the entity and are classified as equity, the entity computes its share of surplus or deficit after adjusting for the dividends on such shares, whether or not the dividends have been declared.

41. If an entity's share of the deficit of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the entity discontinues recognising its share of further deficits. The interest in an associate or a joint venture is the carrying amount of the investment in the associate or joint venture determined using the equity method together with any long-term interests that, in substance, form part of the entity's net investment in the associate or joint venture. For example, an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the entity's investment in that associate or joint venture. Such items may include preference shares and long-term receivables or loans, but do not include trade receivables, trade payables or any long-term receivables for which adequate collateral exists, such as secured loans. Deficits recognised using the equity method in excess of the entity's investment in ordinary shares are applied to the other components of the entity's interest in an associate or a joint venture in the reverse order of their seniority (i.e. priority in liquidation).

42. After the entity's interest is reduced to zero, additional deficits are provided for, and a liability is recognised, only to the extent that the entity has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. If the associate or joint venture subsequently reports surpluses, the entity resumes recognising its share of those surpluses only after its share of the surpluses equals the share of deficits not recognised.

Impairment Losses

43. After application of the equity method, including recognising the associate's or joint venture's deficits in accordance with paragraph 41, the entity applies PBE IPSAS 29 to determine whether it is necessary to recognise any additional impairment loss with respect to its net investment in the associate or joint venture.

44. The entity also applies PBE IPSAS 29 to determine whether any additional impairment loss is recognised with respect to its interest in the associate or joint venture that does not constitute part of the net investment and the amount of that impairment loss.

45. Whenever application of PBE IPSAS 29 indicates that the investment in an associate or a joint venture may be impaired, an entity applies PBE IPSAS 26 *Impairment of Cash-Generating Assets* and possibly PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets.*

46. PBE IPSAS 26 directs an entity to determine the value in use of the cash-generating investment. In determining the value in use of the cash-generating investment in accordance with PBE IPSAS 26, an entity estimates:

    (a) Its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate or joint venture and the proceeds from the ultimate disposal of the investment; or

    (b) The present value of the estimated future cash flows expected to arise from dividends or similar distributions to be received from the investment, and from its ultimate disposal.

    Using appropriate assumptions, both methods give the same result.

47. PBE IPSAS 21 requires that, if the recoverable service amount of an asset is less than its carrying amount, the carrying amount shall be reduced to its recoverable service amount. Recoverable service amount is the higher of an asset's fair value, less costs to sell and its value in use. Value in use of a non-cash-generating asset is defined as the present value of the asset's remaining service potential. The

present value of the remaining service potential may be assessed using the depreciated replacement cost approach, the restoration cost approach or the service units approach, as appropriate.

48. **The recoverable amount of an investment in an associate or a joint venture shall be assessed for each associate or joint venture, unless the associate or joint venture does not generate cash inflows from continuing use that are largely independent of those from other assets of the entity.**

Separate Financial Statements

49. **An investment in an associate or a joint venture shall be accounted for in the entity's separate financial statements in accordance with paragraph 12 of PBE IPSAS 34 *Separate Financial Statements*.**

Transitional Provisions

50. 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.

Effective Date

51. [Not used.]

51.1 **A public benefit entity shall apply this Standard for annual financial statements covering periods beginning on or after [proposed 1 January 2019]. Earlier application is permitted. If a public benefit entity applies this Standard for a period beginning before [proposed 1 January 2019], it shall disclose that fact and apply PBE IPSAS 34, PBE IPSAS 35, PBE IPSAS 37 and PBE IPSAS 38 *Disclosure of Interests in Other Entities* at the same time.**

52. [Not used.]

Withdrawal and Replacement of PBE IPSAS 7 (September 2014)

53. [Not used.]

53.1 This Standard supersedes PBE IPSAS 7 *Investments in Associates* (September 2014). PBE IPSAS 7 remains applicable until PBE IPSAS 36 is applied or becomes effective, whichever is earlier.

Appendix A

Amendments to Other Standards

PBE IPSAS 20 *Related Party Disclosures*

Paragraphs 4 and 15 are amended and paragraph 43.3 is added. New text is underlined and deleted text is struck through.

4. **The following terms are used in this Standard with the meanings specified:**

   …

   Related party means parties are considered to be related if one party has the ability to (a) control the other party, or (b) exercise significant influence over the other party in making financial and operating decisions, or if the related party entity and another entity are subject to common control. Related parties include:

   (a) **Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by, the reporting entity;**

   (b) **Associates (see PBE IPSAS 36~~7~~ *Investments in Associates and Joint Ventures*);**

   (c) **…**

   Significant influence (for the purpose of this Standard) is the power to participate in the financial and operating policy decisions of an entity, but not control those policies. Significant influence may be exercised in several ways, usually by representation on the board of directors or equivalent governing body but also by, for example, participation in (a) the policy making process, (b) material transactions between entities within an economic entity, (c) interchange of managerial personnel, or (d) dependence on technical information. Significant influence may be gained by an ownership interest, statute, or agreement. With regard to an ownership interest, significant influence is presumed in accordance with the definition contained in PBE IPSAS 36~~7~~.

15. The definition of related party includes entities owned by key management personnel, close family members of such individuals or major shareholders (or equivalent where the entity does not have a formal equity structure) of the reporting entity. The definition of related party also includes circumstances in which one party has the ability to exercise significant influence over the other party. In the public sector, an individual or entity may be given oversight responsibility for a reporting entity, which gives them significant influence, but not control, over the financial and operating decisions of the reporting entity. For the purposes of this Standard, significant influence is defined to encompass joint ventures ~~entities subject to joint control~~.

43.3 PBE IPSAS 35 *Consolidated Financial Statements*, PBE IPSAS 36 *Investments in Associates and Joint Ventures* and PBE IPSAS 38 *Disclosure of Interests in Other Entities*, issued in [date], amended paragraphs 4 and 15. An entity shall apply those amendments when it applies PBE IPSAS 35, PBE IPSAS 36 and PBE IPSAS 38.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, PBE IPSAS 36 Investments in Associates and Joint Ventures.

BC1. The New Zealand Accounting Standards Board (NZASB) has modified IPSAS 36 *Investments in Associates and Joint Ventures* for application by Tier 1 and Tier 2 public benefit entities. Where applicable, concessions have been identified for Tier 2 entities and the language has been generalised for use by public benefit entities. The NZASB considers that the requirements of IPSAS 36 are generally appropriate for application by public benefit entities.

BC2. The NZASB decided that the IPSASB's Basis for Conclusions on IPSAS 36 includes information that would be useful for entities applying PBE IPSAS 36 and agreed to reproduce that Basis for Conclusions together with PBE IPSAS 36.

Other PBE Standards

BC3. In the interests of coherence within PBE Standards, the NZASB has modified IPSAS 36 to incorporate guidance that relates to other PBE Standards, for which there is no equivalent IPSAS or requirements within an IPSAS. For example PBE IPSAS 36 incorporates guidance that relates to:

(a) PBE IFRS 3 *Business Combinations* (for example, paragraphs 26(a), and 32);

(b) PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (for example, paragraphs 21.1, 25.1 and 25.2); and

(c) other comprehensive revenue and expense (for example, paragraph 26.1).

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

BC4. PBE IPSAS 36 does not incorporate the IASB's narrow scope amendments in *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28), issued in September 2014. These narrow scope amendments established requirements for the recognition of a partial gain or loss for transactions between an investor and its associate or joint venture dependent on whether the sale or contribution of assets constitutes a business as defined in IFRS 3 *Business Combinations*. The IPSASB did not incorporate these requirements in IPSAS 36 because the IPSASB, at that stage, had not developed a standard dealing with combinations of entities. Given the existence of PBE IFRS 3 *Business Combinations* within PBE Standards, the NZASB considered incorporating these amendments in PBE IPSAS 36. However, following the IASB's decision to defer the effective date of these amendments (pending further work on its equity method project) the NZASB decided not to incorporate these amendments in PBE IPSAS 36.

IPSASB Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 36, Investments in Associates and Joint Ventures.

Objective

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching its conclusions on IPSAS 36. As this Standard is based on IAS 28, *Investments in Associates and Joint Ventures* (Amended in 2011, including amendments up to December 31, 2014) issued by the IASB, the Basis for Conclusions outlines only those areas where IPSAS 36 departs from the main requirements of IAS 28 (Amended in 2011), or where the IPSASB considered such departures.

Overview

BC2. In 2012 the IPSASB commenced work on a project to update those IPSASs that dealt with accounting for interests in controlled entities, associates and joint ventures. In October 2013 the IPSASB issued Exposure Drafts (EDs) 48 to 52 which were collectively referred to as *Interests in Other Entities*. ED 50, *Investments in Associates and Joint Ventures,* was based on IAS 28 (Amended in 2011), having regard to the relevant public sector modifications in IPSAS 7, *Investments in Associates* and IPSAS 8, *Interests in Joint Ventures*. In January 2015 the IPSASB issued five new IPSASs, including IPSAS 36. These new IPSASs supersede IPSAS 6, *Consolidated and Separate Financial Statements*, IPSAS 7 and IPSAS 8.

BC3. As a result of combining the accounting for associates and joint ventures the title of the Standard was changed to *Investments in Associates and Joint Ventures*.

BC4. In drafting IPSAS 36 the Board did not reconsider all the requirements of IPSAS 7, *Investments in Associates*. The most significant changes resulted from the decision to require the use of the equity method to account for investments in joint ventures and therefore to combine the accounting for investments in associates and joint ventures in one standard. The Board's views on the use of the equity method to account for investments in joint ventures are discussed in the Basis for Conclusions on IPSAS 37.

Scope

Quantifiable Ownership Interests

BC5. The IPSASB noted that the scope of IPSAS 7 had been limited to investments in associates "where the investment in the associate leads to the holding of an ownership interest in the form of a shareholding or other formal equity structure". In developing IPSAS 7 the IPSASB noted that it is unlikely equity accounting could be applied unless the associate had a formal or other reliably measurable equity structure. The IPSASB reflected on the intention of this modification and concluded that it was intended to prevent the inappropriate application of that Standard to interests other than ownership interests.

BC6. In contrast with IPSAS 7 this Standard applies to both associates and joint ventures. Because joint ventures can take many forms, including partnership arrangements which do not have formal equity structures, the scope limitation in IPSAS 7 was not appropriate. The IPSASB decided that the scope of this Standard should be limited to "quantifiable ownership interests". Respondents supported this proposal, but considered that disclosure of information about an entity's non-quantifiable ownership interests in other entities would be appropriate. The IPSASB agreed that IPSAS 38, *Disclosure of Interests in Other Entities* should require the disclosure of non-quantifiable ownership interests.

Temporary Joint Control and Significant Influence

BC7. IPSAS 7 and IPSAS 8, *Interests in Joint Ventures,* did not require application of the equity method or proportionate consolidation when joint control of, or significant influence over, another entity was intended to be temporary. The IPSASB noted that the IASB had removed these exemptions from the equivalent IFRSs in 2003, as a consequence of issuing IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*.

BC8. The IPSASB noted that in developing IPSAS 35, *Consolidated Financial Statements,* it had considered the related issue of whether to incorporate a temporary control exemption in that Standard, and had agreed not to do so. Accordingly the IPSASB decided not to provide exemptions based on temporary joint control or temporary significant influence in IPSAS 36.

Significant Influence

BC9. The Standard establishes a presumption that an entity has significant influence over an investee if an entity holds an ownership interest in the form of a shareholding or other formal equity structure and holds, directly, or indirectly, (e.g., through controlled entities) 20 per cent or more of the voting power of an investee. The IPSASB noted that the use of 20 percent in establishing a presumption of significant influence came initially from IAS 28 and had also been used in IPSAS 7 (December 2006). In deciding to retain this presumption in the Standard, the IPSASB noted that it was unaware of any public sector reason to use an amount other than 20 per cent.

Uniform Reporting Dates

BC10. The IPSASB considered whether to impose a time limit on the difference between the end of the reporting period of the entity and associate or joint venture of the entity. The IPSASB noted that IAS 28 requires that the most recent available financial statements of the associate or joint venture be used by an entity in applying the equity method and requires adjustments when they are not the same. In addition, IAS 28 limits the difference in dates to three months. The IPSASB noted that there may be instances in the public sector where entities have different reporting dates and it may not be possible to change those dates. The IPSASB agreed not to impose a three month limit on the difference in dates.

Investment Entities

BC11. Some respondents to ED 50 requested that the IPSASB clarify the application of the equity method by investment entities and by investors with investments in an associate or a joint venture that is an investment entity. Accordingly the IPSASB:

(a) Clarified that an investment entity will, by definition, have elected to account for investments in associates and joint ventures at fair value through surplus or deficit in accordance with IPSAS 29; and

(b) Required that an entity with an interest in an investment entity associate or an investment entity joint venture, shall, when applying the equity method, retain the fair value measurement applied by that investment entity associate or investment entity joint venture to its interests in controlled entities.

BC12. The IPSASB noted that IASB constituents had also sought clarification of some aspects of the accounting for investments in investment entity associates and investment entity joint ventures. The IASB issued ED 2014/2 *Investment Entities–Applying the Consolidation Exception* (Proposed amendments to IFRS 10 and IAS 28) in June 2014 and subsequently issued *Investment Entities: Applying the Consolidation Exception* (Amendments to IFRS 10, IFRS 12 and IAS 28) in December 2014. The IPSASB considered that these clarifications were helpful in addressing implementation issues identified by early adopters of the IASB's investment entity requirements and incorporated those aspects of the amendments that were relevant to this Standard.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

BC13. At the time that IPSAS 36 was being developed, the IASB amended IFRS 10 and IAS 28 so that the requirements for the recognition of a partial gain or loss for transactions between an investor and its associate or joint venture would apply only to the gain or loss resulting from the sale or contribution of assets *that do not constitute a business*, as defined in IFRS 3, *Business Combinations*. The IASB issued *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28) in September 2014. The IPSASB agreed not to incorporate the requirements introduced by these amendments in IPSAS 35 and IPSAS 36 on the grounds that it would be more appropriate to consider the recognition of full or partial gains and losses in the context of drafting standards-level requirements for public sector combinations.

Comparison with IPSAS 36

PBE IPSAS 36 *Investments in Associates and Joint Ventures,* is drawn from IPSAS 36 *Investments in Associates and Joint Ventures.* There are no significant differences between PBE IPSAS 36 and IPSAS 36.