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

Issued January 2017 and incorporates amendments to 28 February 2025

This Standard was issued on 12 January 2017 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This 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 9 February 2017.

Reporting entities that are subject to this Standard are required to apply it in accordance with the commencement and application provisions set out in paragraphs 51.1 to 51.7.

In finalising this 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 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 Standard, when applied, supersedes PBE IPSAS 7 *Investments in Associates*.

PBE IPSAS 36 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

ISBN 978-0-947505-13-4

PBE IPSAS 36 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

CONTENTS

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 NZASB's Basis for Conclusions on PBE IPSAS 36, the IPSASB's Basis for Conclusions on IPSAS 36, the *Public Benefit Entities' Conceptual Framework* 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 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[1] (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

---

[1] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC10 of PBE IPSAS 1 *Presentation of Financial Reports* discusses the transitional approach to the explanation of reliability.

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 Reports*).

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 41 *Financial Instruments* 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 41. In all other cases, instruments containing potential voting rights in an associate or a joint venture are accounted for in accordance with PBE IPSAS 41.

20A. An entity also applies PBE IPSAS 41 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture (see paragraph 41). An entity applies PBE IPSAS 41 to such long-term interests before it applies paragraph 41 and paragraphs 43–48 of this Standard. In applying PBE IPSAS 41, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying this Standard.

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 that investment at fair value through surplus or deficit in accordance with PBE IPSAS 41. An example of an investment-linked insurance fund is a fund held by an entity as the underlying items for a group of insurance contracts with direct participation features. For the purposes of this election, insurance contracts include investment contracts with discretionary participation features. An entity shall make this election separately for each associate or joint venture, at initial recognition of the associate or joint venture. (See PBE IFRS 17 *Insurance Contracts* for terms used in this paragraph that are defined in that Standard.) An investment entity will, by definition, have made this election for its investments.

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 41 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 41.

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 41 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 IPSAS 40 *PBE 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 41. The entity shall recognise in surplus or deficit any difference between:**

        (i) **The fair value 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.

34A–34B. [Not used]

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 paragraphs 44A–44C to determine whether there is any objective evidence that its net investment in the associate or joint venture is impaired.

44. [Deleted by IPSASB]

44A. The net investment in an associate or joint venture is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the net investment (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows from the net investment that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment. Losses expected as a result of future events, no matter how likely, are not recognised. Objective evidence that the net investment is impaired includes observable data that comes to the attention of the entity about the following loss events:

(a) Significant financial difficulty of the associate or joint venture;

(b) A breach of contract, such as a default or delinquency in payments by the associate or joint venture;

(c) The entity, for economic or legal reasons relating to its associate's or joint venture's financial difficulty, granting to the associate or joint venture a concession that the entity would not otherwise consider;

(d) It becoming probable that the associate or joint venture will enter bankruptcy or other financial reorganisation; or

(e) The disappearance of an active market for the net investment because of financial difficulties of the associate or joint venture.

44B. The disappearance of an active market because the associate's or joint venture's equity or financial instruments are no longer publicly traded is not evidence of impairment. A downgrade of an associate's or joint venture's credit rating or a decline in the fair value of the associate or joint venture, is not of itself, evidence of impairment, although it may be evidence of impairment when considered with other available information.

44C. In addition to the types of events in paragraph 44A, objective evidence of impairment for the net investment in the equity instruments of the associate or joint venture includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the associate or joint venture operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

45. Whenever application of paragraphs 44A–44C 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* or 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.

Commencement and Application

51. [Not used]

51.1 **A public benefit entity shall apply this Standard for annual financial statements covering periods beginning on or after 1 January 2019. Earlier application is permitted. If a public benefit entity applies this Standard for a period beginning before 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.**

51.2 **PBE IFRS 9 *Financial Instruments*, issued in January 2017, amended paragraphs 20, 25, 25.1 and 26, 43, 44 and 45 and added paragraphs 44A–44C. An entity shall apply those amendments when it applies PBE IFRS 9.**[2]

51.3 ***2018 Omnibus Amendments to PBE Standards*, issued in November 2018, amended paragraph 24. An entity shall apply that amendment retrospectively in accordance with PBE IPSAS 3 for annual financial statements covering periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies that amendment for a period beginning before 1 January 2019 it shall disclose that fact.**

51.4 **PBE IPSAS 40, issued in July 2019, amended paragraph 26 and added paragraphs 34A–34B. An entity shall apply that amendment when it applies PBE IPSAS 40.**

51.5 **PBE IPSAS 41, issued in March 2019, amended paragraphs 20, 24, 25, 25.1, 26, 43, 45 and 51.2, added paragraphs 20A and 44A–44C and deleted paragraph 44. An entity shall apply those amendments when it applies PBE IPSAS 41, except as specified in paragraph 51.6.**

51.6 An entity transitioning to PBE IPSAS 41 from PBE IFRS 9 shall apply the transition requirements in paragraphs 158–184 of PBE IPSAS 41 to the long-term interests described in paragraph 20A. The entity is not required to restate prior periods to reflect the application of the requirements in paragraph 20A. The entity may restate prior periods only if it is possible without the use of hindsight. If an entity does not restate prior periods, at the date of initial application of PBE IPSAS 41 it shall recognise in the opening accumulated comprehensive revenue and expense (or other component of net assets/equity, as appropriate) any difference between:

(a) the previous carrying amount of long-term interests described in paragraph 20A at that date; and

(b) the carrying amount of those long-term interests at that date.

51.7 **PBE IFRS 17, issued in July 2019, amended paragraph 24. An entity shall apply that amendment when it applies PBE IFRS 17.**

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.

[2] PBE IFRS 9 was subsequently withdrawn by PBE IPSAS 41. The amendments in Appendix D of PBE IFRS 9 were not compiled.

Appendix A

Amendments to Other Standards

The amendments contained in this appendix when this Standard was issued in 2017 have been incorporated into the text of the relevant pronouncements.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, PBE IPSAS 36.

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. 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.

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

BC3. PBE IPSAS 36 does not incorporate the IASB 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.

BC3.1 In January 2017 the IPSASB issued IPSAS 40 *Public Sector Combinations*. IPSAS 40 incorporated *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28) and *Effective Date of Amendments to IFRS 10 and IAS 28* (issued by the IASB in December 2015) in IPSAS 35. In developing PBE IPSAS 40 *PBE Combinations* the NZASB reconsidered incorporating these amendments in PBE IPSAS 36 but, given the IASB's decision in May 2016 to defer work on its Equity Method research project until it has undertaken post-implementation reviews of certain standards, decided not to incorporate these amendments in PBE IPSAS 36.

2018 Omnibus Amendments to PBE Standards

BC4. In December 2016 the IASB issued *Annual Improvements to IFRS Standards 2014–2016 Cycle* which amended paragraphs 18 and 36A of IAS 28 *Investments in Associates and Joint Ventures*. The amendments to paragraph 18 clarified that a venture capital organisation, or a mutual fund, unit trust and similar entities may elect, on initial recognition, to measure investments in an associate or joint venture at fair value through profit or loss separately for each associate or joint venture. The IPSASB subsequently issued *Improvements to IPSAS, 2018* which amended paragraph 24 of IPSAS 36 *Investments in Associates and Joint Ventures* in a manner consistent with the amendments to paragraph 18 of IAS 28. The NZASB amended paragraph 24 of PBE IPSAS 36 in *2018 Omnibus Amendments to PBE Standards*.

BC5. The amendments to paragraph 36A of IAS 28 were not relevant for IPSAS 36 or PBE IPSAS 36 because the requirements for entities that have investments in investment entities, but which are not themselves investment entities, differ between IAS 28 and IPSAS 36/PBE IPSAS 36.

Long-term Interests in Associates and Joint Ventures

BC6. In October 2017 the IASB issued *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28) to clarify that an entity is required to apply IFRS 9 *Financial Instruments*, including its impairment requirements, to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). Following the issue of IPSAS 41 *Financial Instruments* in August 2018 the IPSASB issued an amending standard (*Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) *and Prepayment Features with Negative Compensation* (Amendments to IPSAS 41) to incorporate equivalent amendments in IPSAS 36 *Investments in Associates and Joint Ventures*. The NZASB amended PBE IPSAS 36 when it issued PBE IPSAS 41 *Financial Instruments*.

Illustrative Example—Long-term Interests in Associates and Joint Ventures

This example accompanies, but is not part of, PBE IPSAS 36.

This example portrays a hypothetical situation illustrating how an entity (investor) accounts for long-term interests that, in substance, form part of the entity's net investment in an associate (long-term interests) applying PBE IPSAS 41 *Financial Instruments* and PBE IPSAS 36 based on the assumptions presented. The entity applies PBE IPSAS 41 in accounting for long-term interests. The entity applies PBE IPSAS 36 to its net investment in the associate, which includes long-term interests. The analysis in this example is not intended to represent the only manner in which the requirements in PBE IPSAS 36 could be applied.

Assumptions

The investor has the following three types of interests in the associate:

(a) O Shares—ordinary shares representing a 40% ownership interest to which the investor applies the equity method. This interest is the least senior of the three interests, based on their relative priority in liquidation.

(b) P Shares—non-cumulative preference shares that form part of the net investment in the associate and that the investor measures at fair value through surplus or deficit applying PBE IPSAS 41.

(c) LT Loan—a long-term loan that forms part of the net investment in the associate and that the investor measures at amortised cost applying PBE IPSAS 41, with a stated interest rate and an effective interest rate of 5% a year. The associate makes interest-only payments to the investor each year. The LT Loan is the most senior of the three interests.

The LT Loan is not an originated credit-impaired loan. Throughout the years illustrated, there has not been any objective evidence that the net investment in the associate is impaired applying PBE IPSAS 36, nor does the LT Loan become credit-impaired applying PBE IPSAS 41.

The associate does not have any outstanding cumulative preference shares classified as equity, as described in paragraph 40 of PBE IPSAS 36. Throughout the years illustrated, the associate neither declares nor pays dividends on O Shares or P Shares.

The investor has not incurred any legal or constructive obligations, nor made payments on behalf of the associate, as described in paragraph 42 of PBE IPSAS 36. Accordingly, the investor does not recognise its share of the associate's deficits once the carrying amount of its net investment in the associate is reduced to zero.

The amount of the investor's initial investment in O Shares is CU200,[3] in P Shares is CU100 and in the LT Loan is CU100. On acquisition of the investment, the cost of the investment equals the investor's share of the net fair value of the associate's identifiable assets and liabilities.

This table summarises the carrying amount at the end of each year for P Shares and the LT Loan applying PBE IPSAS 41 but before applying PBE IPSAS 36, and the associate's surplus (deficit) for each year. The amounts for the LT Loan are shown net of the loss allowance.

At the end of	P Shares applying PBE IPSAS 41 (fair value)	LT Loan applying PBE IPSAS 41 (amortised cost)	Surplus (deficit) of the associate
Year 1	CU110	CU90	CU50
Year 2	CU90	CU70	CU(200)
Year 3	CU50	CU50	CU(500)
Year 4	CU40	CU50	CU(150)
Year 5	CU60	CU60	–
Year 6	CU80	CU70	CU500
Year 7	CU110	CU90	CU500

[3] In this Illustrative Example, currency amounts are denominated in currency units (CU).

Analysis

Year 1

The investor recognises the following in Year 1:

Investments in the associate:		
Dr O Shares	CU200	
Dr P Shares	CU100	
Dr LT Loan	CU100	
Cr Cash		CU400
To recognise the initial investment in the associate		
Dr P Shares	CU10	
Cr Surplus or deficit		CU10
To recognise the change in fair value (CU110 − CU100)		
Dr Surplus or deficit	CU10	
Cr Loss allowance (LT Loan)		CU10
To recognise an increase in the loss allowance (CU90 − CU100)		
Dr O Shares	CU20	
Cr Surplus or deficit		CU20
To recognise the investor's share of the associate's surplus (CU50 × 40%)		

At the end of Year 1, the carrying amount of O Shares is CU220, P Shares is CU110 and the LT Loan (net of loss allowance) is CU90.

Year 2

The investor recognises the following in Year 2:

Dr Surplus or deficit	CU20	
Cr P Shares		CU20
To recognise the change in fair value (CU90 − CU110)		
Dr Surplus or deficit	CU20	
Cr Loss allowance (LT Loan)		CU20
To recognise an increase in the loss allowance (CU70 – CU90)		
Dr Surplus or deficit	CU80	
Cr O Shares		CU80
To recognise the investor's share of the associate's loss (CU200 × 40%)		

At the end of Year 2, the carrying amount of O Shares is CU140, P Shares is CU90 and the LT Loan (net of loss allowance) is CU70.

Year 3

Applying paragraph 20A of PBE IPSAS 36, the investor applies PBE IPSAS 41 to P Shares and the LT Loan before it applies paragraph 41 of PBE IPSAS 41. Accordingly, the investor recognises the following in Year 3:

Dr Surplus or deficit	CU40	
Cr P Shares		CU40
To recognise the change in fair value (CU50 − CU90)		

Dr Surplus or deficit	CU20	
Cr Loss allowance (LT Loan)		CU20

To recognise an increase in the loss allowance (CU50 – CU70)

Dr Surplus or deficit	CU200	
Cr O Shares		CU140
Cr P Shares		CU50
Cr LT Loan		CU10

To recognise the investor's share of the associate's deficit in reverse order of seniority as specified in paragraph 41 of PBE IPSAS 36 (CU500 × 40%)

At the end of Year 3, the carrying amount of O Shares is zero, P Shares is zero and the LT Loan (net of loss allowance) is CU40.

Year 4

Applying PBE IPSAS 41 to its interests in the associate, the investor recognises the following in Year 4:

Dr Surplus or deficit	CU10	
Cr P Shares		CU10

To recognise the change in fair value (CU40 − CU50)

Recognition of the change in fair value of CU10 in Year 4 results in the carrying amount of P Shares being negative CU10. Consequently, the investor recognises the following to reverse a portion of the associate's deficits previously allocated to P Shares:

Dr P Shares	CU10	
Cr Surplus or deficit		CU10

To reverse a portion of the associate's deficits previously allocated to P Shares

Applying paragraph 41 of PBE IPSAS 36, the investor limits the recognition of the associate's deficits to CU40 because the carrying amount of its net investment in the associate is then zero. Accordingly, the investor recognises the following:

Dr Surplus or deficit	CU40	
Cr LT Loan		CU40

To recognise the investor's share of the associate's deficit

At the end of Year 4, the carrying amount of O Shares is zero, P Shares is zero and the LT Loan (net of loss allowance) is zero. There is also an unrecognised share of the associate's deficits of CU30 (the investor's share of the associate's cumulative deficits of CU340 – CU320 deficits recognised cumulatively + CU10 deficits reversed).

Year 5

Applying PBE IPSAS 41 to its interests in the associate, the investor recognises the following in Year 5:

Dr P Shares	CU20	
Cr Surplus or deficit		CU20

To recognise the change in fair value (CU60 − CU40)

Dr Loss allowance (LT Loan)	CU10	
Cr Surplus or deficit		CU10

To recognise a decrease in the loss allowance (CU60 – CU50)

After applying PBE IPSAS 41 to P Shares and the LT Loan, these interests have a positive carrying amount. Consequently, the investor allocates the previously unrecognised share of the associate's deficits of CU30 to these interests.

Dr Surplus or deficit	CU30	
Cr P Shares		CU20
Cr LT Loan		CU10
To recognise the previously unrecognised share of the associate's deficits		

At the end of Year 5, the carrying amount of O Shares is zero, P Shares is zero and the LT Loan (net of loss allowance) is zero.

Year 6

Applying PBE IPSAS 41 to its interests in the associate, the investor recognises the following in Year 6:

Dr P Shares	CU20	
Cr Surplus or deficit		CU20
To recognise the change in fair value (CU80 − CU60)		
Dr Loss allowance (LT Loan)	CU10	
Cr Surplus or deficit		CU10
To recognise a decrease in the loss allowance (CU70 – CU60)		

The investor allocates the associate's surplus to each interest in the order of seniority. The investor limits the amount of the associate's surplus it allocates to P Shares and the LT Loan to the amount of equity method deficits previously allocated to those interests, which in this example is CU60 for both interests.

Dr O Shares	CU80	
Dr P Shares	CU60	
Dr LT Loan	CU60	
Cr Surplus or deficit		CU200
To recognise the investor's share of the associate's surplus (CU500 × 40%)		

At the end of Year 6, the carrying amount of O Shares is CU80, P Shares is CU80 and the LT Loan (net of loss allowance) is CU70.

Year 7

The investor recognises the following in Year 7:

Dr P Shares	CU30	
Cr Surplus or deficit		CU30
To recognise the change in fair value (CU110 − CU80)		
Dr Loss allowance (LT Loan)	CU20	
Cr Surplus or deficit		CU20
To recognise a decrease in the loss allowance (CU90 – CU70)		
Dr O Shares	CU200	
Cr Surplus or deficit		CU200
To recognise the investor's share of the associate's surplus (CU500 × 40%)		

At the end of Year 7, the carrying amount of O Shares is CU280, P Shares is CU110 and the LT Loan (net of loss allowance) is CU90.

Years 1–7

When recognising interest revenue on the LT Loan in each year, the investor does not take account of any adjustments to the carrying amount of the LT Loan that arose from applying PBE IPSAS 36 (paragraph 20A of PBE IPSAS 36). Accordingly, the investor recognises the following in each year:

Dr Cash	CU5	
Cr Surplus or deficit		CU5

To recognise interest revenue on LT Loan based on the effective interest rate of 5%

Summary of amounts recognised in surplus or deficit

This table summarises the amounts recognised in the investor's surplus or deficit.

Items recognised **During**	**Impairment (losses), including reversals, applying PBE IPSAS 41**	**Gains (losses) of P Shares applying PBE IPSAS 41**	**Share of surplus (deficit) of the associate recognised applying the equity method**	**Interest revenue applying PBE IPSAS 41**
Year 1	CU(10)	CU10	CU20	CU5
Year 2	CU(20)	CU(20)	CU(80)	CU5
Year 3	CU(20)	CU(40)	CU(200)	CU5
Year 4	–	CU(10)	CU(30)	CU5
Year 5	CU10	CU20	CU(30)	CU5
Year 6	CU10	CU20	CU200	CU5
Year 7	CU20	CU30	CU200	CU5

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.

History of Amendments

PBE IPSAS 36 *Investments in Associates and Joint Ventures* was issued in January 2017.

This table lists the pronouncements establishing and substantially amending PBE IPSAS 36. The table is based on amendments issued as at 28 February 2025.

Pronouncements	**Date approved**	**Early operative date**	**Mandatory date (annual financial statements … on or after …)**
PBE IPSAS 36 *Investments in Associates and Joint Ventures*	Jan 2017	Early application is permitted	1 Jan 2019
PBE IFRS 9 *Financial Instruments*	Jan 2017	Early application is permitted	1 Jan 2022[4]
PBE FRS 48 *Service Performance Reporting*	Nov 2017	Early application is permitted	1 Jan 2022[5]
2018 Omnibus Amendments to PBE Standards	Nov 2018	Early application is permitted	1 Jan 2019
PBE IPSAS 41 *Financial Instruments*	Mar 2019	Early application is permitted	1 Jan 2022
PBE IPSAS 40 *PBE Combinations*	July 2019	Early application is permitted	1 Jan 2021
PBE IFRS 17 *Insurance Contracts*	July 2019	Early application is permitted	1 Jan 2023 [NFP][6] 1 Jan 2026 [PS][7]

Table of Amended Paragraphs in PBE IPSAS 36		
Paragraph affected	**How affected**	**By … [date]**
Paragraph 4	Amended	PBE IFRS 48 [Nov 2017]
Paragraph 16	Amended	PBE IFRS 48 [Nov 2017]
Paragraph 20	Amended	PBE IPSAS 41 [Mar 2019]
Paragraph 20A	Added	PBE IPSAS 41 [Mar 2019]
Paragraph 24	Amended	*2018 Omnibus Amendments to PBE Standards* [Nov 2018]
Paragraph 24	Amended	PBE IPSAS 41 [Mar 2019]

[4] PBE IFRS 9 has not been compiled. PBE IFRS 9 is superseded by PBE IPSAS 41 and the effective date of PBE IFRS 9 has been changed to 1 January 2022.

[5] *2020 Amendments to PBE FRS 48*, issued in August 2020, deferred the effective date of PBE FRS 48 from 1 January 2021 to 1 January 2022.

[6] When first issued in July 2019, PBE IFRS 17 applied only to not-for-profit PBEs. *Amendments to PBE IFRS 17*, issued in August 2020, deferred the effective date of PBE IFRS 17 for not-for-profit PBEs from 1 January 2022 to 1 January 2023.

[7] *Insurance Contracts in the Public Sector*, issued in June 2023, extended the scope of PBE IFRS 17 to include public sector PBEs. Public sector PBEs are required to apply PBE IFRS 17, as amended by *Insurance Contracts in the Public Sector,* for accounting periods beginning on or after 1 January 2026.

Table of Amended Paragraphs in PBE IPSAS 36		
Paragraph affected	**How affected**	**By … [date]**
Paragraph 24	Amended	PBE IFRS 17 [Jul 2019]
Paragraph 25	Amended	PBE IPSAS 41 [Mar 2019]
Paragraph 25.1	Amended	PBE IPSAS 41 [Mar 2019]
Paragraph 26	Amended	PBE IPSAS 40 [July 2019]
Paragraph 26	Amended	PBE IPSAS 41 [Mar 2019]
Paragraph 34A–34B	Added	PBE IPSAS 40 [July 2019]
Paragraph 43	Amended	PBE IPSAS 41 [Mar 2019]
Paragraph 44	Deleted	PBE IPSAS 41 [Mar 2019]
Paragraph 44A–44C	Added	PBE IPSAS 41 [Mar 2019]
Paragraph 45	Amended	PBE IPSAS 41 [Mar 2019]
Paragraph 51.2	Added	PBE IFRS 9 [Jan 2017]
Paragraph 51.2	Amended	PBE IPSAS 41 [Mar 2019]
Paragraph 51.3	Added	*2018 Omnibus Amendments to PBE Standards* [Nov 2018]
Paragraph 51.4	Added	PBE IPSAS 40 [July 2019]
Paragraph 51.5	Added	PBE IPSAS 41 [Mar 2019]
Paragraph 51.6	Added	PBE IPSAS 41 [Mar 2019]
Paragraph 51.7	Added	PBE IFRS 17 [Jul 2019]