NZ IAS 28: INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Version 1: 2024

Effective Periods Beginning 1 January 2013

SCOPE

Applies to all entities that are investors with joint control of, or significant influence over, an investee.

DEFINITIONS

Associate

An entity over which the investor has significant influence.

Significant influence is:

Power to participate in financial and operating policy decisions of the investee.

But is not control or joint control over those policies.

Joint arrangement:

Arrangement of which two or more parties have joint control.

Joint control:

The contractually agreed sharing of control of an arrangement - decisions require the unanimous consent of the parties sharing control.

Joint venture:

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

The equity method is a method of accounting:

- That initially recognises an investment in an investee at cost; and
- Thereafter adjusts the investment for the post-acquisition change in the investor's share of net assets of the investee.
- The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

Refer to NZ IFRS 10 appendix A, for definitions of:

- Control;
- Group;
- Parent;
- Separate financial statements; and
- Subsidiary.

DISCLOSURE

NZ IFRS 12 covers disclosure requirements.

APPLICATION

SIGNIFICANT INFLUENCE

- Rebuttable presumption: 20% - 50% shareholding = significant influence.
- Evidenced in one or more of the following ways:
  - Representation on the board of directors or equivalent governing body of the investee;
  - Participation in policy-making processes, including participation in decisions about dividends or other distributions;
  - Material transactions between the investor and the investee;
  - Interchange of managerial personnel; or
  - Provision of essential technical information.

EXEMPTION FROM EQUITY METHOD

1. If the entity is a parent that is exempt from preparing consolidated financial statements, per NZ IFRS 10 – Consolidated Financial Statements paragraph 4(a), or
2. If all the following apply:
   - The investor is a wholly owned subsidiary and the owners have been informed about the decision.
   - The investor's debt or equity instruments are not publicly traded.
   - The investor did not file its financial statements with a securities commission or other regulator for the purposes of issuing its shares to the public; and
   - The ultimate or intermediate parent of the investor produces consolidated financial statements that comply with NZ IFRS.
3. The investments are held by venture capital organisations, mutual funds, unit trusts and similar entities for which the investor elects to account for at fair value through profit or loss.

EQUITY METHOD

- The investment is initially recognised at cost; and
- Subsequently, the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition (NZ IAS 28.10).
  - The investor's share of the profit or loss of the investee is recognised in the investor's profit or loss.
  - Distributions received from an investee reduce the carrying amount of the investment.
  - Adjustments to the carrying amount may also arise from changes in the investee's other comprehensive income (OCI) (i.e. revaluation of property, plant and equipment and foreign exchange translation differences. The investor's share of those changes is recognised in OCI of the investor.
  - An investment in an investee that meets the definition of a "non-current asset held for sale" should be recognised in accordance with NZ IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations.*
- The equity method is used from the date significant influence arises, to the date significant influence ceases.

IMPAIRMENT LOSSES

Goodwill that forms part of the carrying amount of an investment in an investee is not separately recognised and therefore not tested separately for impairment – instead the entire investment is tested as "one" in accordance with NZ IAS 36 – *Impairment of Assets*.

SEPARATE FINANCIAL STATEMENTS

An investment in an investee is required to be accounted for in the entity's separate financial statements either at cost or at fair value per NZ IFRS 9.

ISSUES TO NOTE

- Potential voting rights that are currently exercisable are taken into account to determine whether significant influence exists, but equity account based on actual interest only.
- Financial statements of the investor and investee used must not differ by more than 3 months in terms of the reporting date.
- The investors' share in the investee's profits and losses resulting from transactions with the investee are eliminated in the equity accounted financial statements of the parent.
- Use uniform accounting policies for like transactions and other events in similar circumstances.
- If an investor's share of losses of an investee exceeds its interest in the investee, discontinue recognising share of further losses. The interest in an investee is the carrying amount of the investment in the investee under the equity method, and any long-term interests that, in substance, form part of the investor's net investment in the investee (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 investee) after first applying the requirement of NZ IFRS 9 to these long-term interests.
- If ownership interest is reduced, but equity method remains, the entity reclassifies to profit or loss the gain or loss that had previously been recognised in OCI.

DISCONTINUING THE USE OF THE EQUITY METHOD

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

- If an investment becomes a subsidiary, the entity shall comply with NZ IFRS 3 *Business Combinations* and NZ IFRS 10.
- If any retained investment is held as a financial asset, the entity shall apply NZ IFRS 9 *Financial Instruments,* and recognise in profit or loss the difference between:
  - The fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture; and
  - The carrying amount of investment at date equity method discontinued.
- Account for all amounts recognised in OCI in relation to that investment on same basis if investee had directly disposed of related assets and liabilities.

TIER 2 NZ IFRS RDR REPORTERS

NZ IFRS RDR Reporters must comply with NZ IAS 28 in full