XRB EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

NZ ACCOUNTING STANDARDS BOARD

PUBLIC BENEFIT ENTITY INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 7 INVESTMENTS IN ASSOCIATES (PBE IPSAS 7)

Issued September 2014 and incorporates amendments to 31 January 2017 other than consequential amendments resulting from early adoption of PBE IFRS 9 *Financial Instruments*

This Standard was issued on 11 September 2014 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 October 2014.

Reporting entities that are subject to this Standard are required to apply it in accordance with the effective date, which is set out in paragraphs 48.1 to 48.2.

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 Tier 1 and Tier 2 PBE Standard has been issued as part of a revised full set of PBE Standards that incorporate enhancements for not-for-profit public benefit entities.

This Standard, when applied, supersedes PBE IPSAS 7 *Investments in Associates* issued in May 2013.

This Standard is superseded by PBE IPSAS 36 *Interests in Associates and Joint Ventures*. PBE IPSAS 36 shall be applied for annual financial statements covering periods beginning on or after 1 January 2019. Earlier application is permitted, in which case this Standard is superseded from the earlier date of application.

PBE IPSAS 7 INVESTMENTS IN ASSOCIATES

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PBE IPSAS 7 INVESTMENTS IN ASSOCIATES

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The following is available on the XRB website as additional material:

IPSASB Basis for Conclusions

Public Benefit Entity International Public Sector Accounting Standard 7 *Investments in Associates* is set out in paragraphs 1–49. All the paragraphs have equal authority. PBE IPSAS 7 should be read in the context of the NZASB's Basis for Conclusions on PBE IPSAS 7, the IPSASB's Basis for Conclusions on IPSAS 7, 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.

Scope

1. **An entity that prepares and presents financial statements shall apply this Standard in accounting by an investor for 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. However, it does not apply to investments in associates held by:**

   (a) **Venture capital organisations; or**

   (b) **Mutual funds, unit trusts and similar entities including investment-linked insurance funds;**

   that are measured at fair value, with changes in fair value recognised in surplus or deficit in the period of the change in accordance with PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*. An entity holding such an investment shall make the disclosures required by paragraph 43(f).

2. Guidance on recognition and measurement of interests identified in paragraph 1 that are measured at fair value, with changes in fair value recognised in surplus or deficit in the period of the change, can be found in PBE IPSAS 29.

3. This Standard provides the basis for accounting for ownership interests in associates. That is, the investment in the other entity confers on the investor the risks and rewards incidental to an ownership interest. This Standard applies only to investments in the formal equity structure (or its equivalent) of an investee. A formal equity structure means share capital or an equivalent form of unitised capital, such as units in a property trust, but may also include other equity structures in which the investor's interest can be measured reliably.[1] Where the equity structure is poorly defined, it may not be possible to obtain a reliable measure of the ownership interest.

4. Some contributions made by entities may be referred to as an "investment" but may not give rise to an ownership interest. For example, an 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 entity to participate in the operation of the hospital, and the charity is accountable to the entity for its use of those monies. However, the contributions made by the entity do not constitute an ownership interest, as the charity could seek alternative funding and thereby prevent the entity from participating in the operation of the hospital. Accordingly, the entity is not exposed to the risks, nor does it enjoy the rewards, that are incidental to an ownership interest.

5. [Not used]

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

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

6. [Not used]

Definitions

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

   An associate is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence, and that is neither a controlled entity nor an interest in a joint venture.

   The equity method (for the purpose of this Standard) 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 net assets/equity of the investee. The surplus or deficit of the investor includes the investor's share of the surplus or deficit of the investee.

   Significant influence (for the purpose of this Standard) is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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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 Statements* discusses the transitional approach to the explanation of reliability.

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.

8. Financial statements of an entity that does not have a controlled entity, associate, or venturer's interest in a joint venture are not separate financial statements.

9. Separate financial statements are those presented in addition to (a) consolidated financial statements, (b) financial statements in which investments are accounted for using the equity method, and (c) financial statements in which the venturer's interests in joint ventures are proportionately consolidated. Separate financial statements may or may not be appended to, or accompany, those financial statements.

10. Entities that are exempted in accordance with (a) paragraph 16 of PBE IPSAS 6 *Consolidated and Separate Financial Statements*, from consolidation, (b) paragraph 3 of PBE IPSAS 8 *Interests in Joint Ventures*, from applying proportionate consolidation or the equity method, or (c) paragraph 19(c) of this Standard from applying the equity method may present separate financial statements as their only financial statements.

Significant Influence

11. 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 an ownership interest in the form of a shareholding or other formal equity structure.

12. The existence of significant influence by an investor 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 investor and the investee;

    (d) Interchange of managerial personnel; or

    (e) Provision of essential technical information.

13. If the investor's ownership interest is in the form of shares, and it holds, directly or indirectly (e.g., through controlled entities), 20 percent or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly (e.g., through controlled entities), less than 20 percent of the voting power of the investee, it is presumed that the investor 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 investor from having significant influence.

14. An entity may own (a) share warrants, (b) share call options, (c) debt or equity instruments that are convertible into ordinary shares, or (d) other similar instruments that have the potential, if exercised or converted, to give the entity additional voting power or 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.

15. 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 intention of management and the financial ability to exercise or convert.

16. 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 another entity, a court, administrator, or regulator. It could also occur as a result of a binding agreement.

Equity Method

17. Under the equity method, the investment in an associate is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of surplus or deficit of the investee after the date of acquisition. The investor's share of the surplus or deficit of the investee 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 other comprehensive revenue and expense of the investor (see PBE IPSAS 1 *Presentation of Financial Statements*).

18. When potential voting rights exist, the investor's share of surplus or deficit of the investee and of changes in the investee's net assets/equity is determined on the basis of present ownership interests, and does not reflect the possible exercise or conversion of potential voting rights.

Application of the Equity Method

19. **An investment in an associate shall be accounted for using the equity method, except when:**

    (a) **The investment is classified as held for sale in accordance with PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;**

    (b) **The exception in paragraph 16 of PBE IPSAS 6, allowing a controlling entity that also has an investment in an associate not to present consolidated financial statements, applies; or**

    (c) **All of the following apply:**

        (i) **The investor is:**

        - **A wholly-owned controlled entity, and users of financial statements prepared by applying the equity method are unlikely to exist or their information needs are met by the controlling entity's consolidated financial statements; or**
        - **A partially-owned controlled entity of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the investor not applying the equity method;**

        (ii) **The investor'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);**

        (iii) **The investor 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; and**

        *(iv) **The ultimate or any intermediate controlling entity of the investor produces consolidated financial statements available for public use that comply with PBE Standards.**

RDR 19.1 **A Tier 2 entity is not required to comply with paragraph 19(c)(iv). In order to qualify for the exemption not to present consolidated financial statements, an entity must still comply with all the other conditions in paragraph 19(c).**

20. **Investments described in paragraph 19(a) shall be accounted for in accordance with PBE IFRS 5.**

21. When an investment in an associate previously classified as held for sale no longer meets the criteria to be so classified, it shall be accounted for using the equity method 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.

22. [Not used]

23. 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, because the distributions received may bear little relation to the performance of the associate. In particular, where the associate has not-for-profit

objectives, investment performance will be determined by factors such as the cost of outputs and overall service delivery. Because the investor has significant influence over the associate, the investor has an interest in the associate'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 surpluses or deficits of such an associate. As a result, application of the equity method provides more informative reporting of the net assets/equity and surplus or deficit of the investor.

24. **An investor shall discontinue the use of the equity method from the date that it ceases to have significant influence over an associate, and shall account for the investment in accordance with PBE IPSAS 29 from that date, provided the associate does not become a controlled entity or a joint venture as defined in PBE IPSAS 8.**

24.1 **When an investment ceases to be an associate and is accounted for in accordance with PBE IPSAS 29, the fair value of the investment at the date when it ceases to be an associate shall be regarded as its fair value on initial recognition as a financial asset in accordance with PBE IPSAS 29.**

25. [Not used]

26. Many of the procedures appropriate for the application of the equity method are similar to the consolidation procedures described in PBE IPSAS 6. 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.

27. An economic entity's share in an associate is the aggregate of the holdings in that associate 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 has controlled entities, associates, or joint ventures, the surpluses or deficits and net assets taken into account in applying the equity method are those recognised in the associate's financial statements (including the associate's share of the surpluses or deficits and net assets of its associates and joint ventures), after any adjustments necessary to give effect to uniform accounting policies (see paragraphs 32 and 33).

28. Surpluses and deficits resulting from upstream and downstream transactions between an investor (including its consolidated controlled entities) and an associate are recognised in the investor's financial statements only to the extent of unrelated investors' interests in the associate. Upstream transactions are, for example, sales of assets from an associate to the investor. Downstream transactions are, for example, sales of assets from the investor to an associate. The investor's share in the associate's surpluses and deficits resulting from these transactions is eliminated.

29. An investment in an associate is accounted for using the equity method from the date on which it becomes an associate. Guidance on accounting for any difference (whether positive or negative) between the cost of acquisition and the investor's share of the fair values of the net identifiable assets of the associate is treated as goodwill (guidance can be found in PBE IFRS 3 *Business Combinations*). Goodwill relating to an associate is included in the carrying amount of the investment. Appropriate adjustments to the investor's share of the surpluses or deficits after acquisition are made to account, for example, for depreciation of the depreciable assets, based on their fair values at the date of acquisition.

30. **The most recent available financial statements of the associate are used by the investor in applying the equity method. When the reporting dates of the investor and the associate are different, the associate prepares, for the use of the investor, financial statements as of the same date as the financial statements of the investor unless it is impracticable to do so.**

31. **When, in accordance with paragraph 30, the financial statements of an associate used in applying the equity method are prepared as of a different reporting date from that of the investor, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the investor's financial statements. The length of the reporting periods and any difference in the reporting dates shall be the same from period to period.**

31.1 **The difference between the reporting date of the associate and that of the investor shall be no more than three months except in the rare circumstances where:**

(a) **Statute fixes the reporting date of an associate greater than three months from the reporting date of the investor's own financial statements; and**

(b) **No faithfully representative financial information for the associate covering a period not more than three months different to that of the investor is able to be obtained.**

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

33. If an associate uses accounting policies other than those of the investor for like transactions and events in similar circumstances, adjustments shall be made to conform the associate's accounting policies to those of the investor when the associate's financial statements are used by the investor in applying the equity method.

34. If an associate has outstanding cumulative preferred shares that are held by parties other than the investor, and classified as net assets/equity, the investor computes its share of surpluses or deficits after adjusting for the dividends on such shares, whether or not the dividends have been declared.

35. If an investor's share of deficits of an associate equals or exceeds its interest in the associate, the investor discontinues recognising its share of further deficits. The interest in an associate is the carrying amount of the investment in the associate under the equity method, together with any long-term interests that, in substance, form part of the investor's net investment in the associate. 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. 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 under the equity method in excess of the investor's investment in ordinary shares are applied to the other components of the investor's interest in an associate in the reverse order of their seniority (i.e., priority of liquidation).

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

Impairment Losses

37. After application of the equity method, including recognising the associate's deficits in accordance with paragraph 35, the investor applies the requirements of PBE IPSAS 29 to determine whether it is necessary to recognise any additional impairment loss with respect to the investor's net investment in the associate.

38. The investor also applies the requirements of PBE IPSAS 29 to determine whether any additional impairment loss is recognised with respect to the investor's interest in the associate that does not constitute part of the net investment and the amount of the impairment loss.

39. If application of the requirements in PBE IPSAS 29 indicates that the investment may be impaired, an entity applies PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets* and PBE IPSAS 26 *Impairment of Cash-Generating Assets*. PBE IPSAS 26 directs an entity to determine the value in use of the cash-generating investment. Based on 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 investee, including the cash flows from the operations of the investee and the proceeds on 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.

Under appropriate assumptions, both methods give the same result. Any resulting impairment loss for the investment is allocated in accordance with PBE IPSAS 26.

40. The recoverable amount of an investment in an associate is assessed for each associate, unless the associate does not generate cash inflows from continuing use that are largely independent of those from other assets of the entity.

Separate Financial Statements

41. **An investment in an associate shall be accounted for in the investor's separate financial statements in accordance with paragraphs 58–RDR 64.1 of PBE IPSAS 6.**

42. This Standard does not mandate which entities produce separate financial statements available for public use.

Disclosure

43. **The following disclosures shall be made:**

    (a) **The fair value of investments in associates for which there are published price quotations;**

    *(b) **Summarised financial information of associates, including the aggregated amounts of assets, liabilities, revenues, and surplus or deficit;**

    *(c) **The reasons why the presumption that an investor does not have significant influence is overcome if the investor holds, directly or indirectly through controlled entities, less than 20 percent of the voting or potential voting power of the investee but concludes that it has significant influence;**

    *(d) **The reasons why the presumption that an investor has significant influence is overcome if the investor holds, directly or indirectly through controlled entities, 20 percent or more of the voting power of the investee but concludes that it does not have significant influence;**

    *(e) **The reporting date of the financial statements of an associate, when such financial statements are used in applying the equity method and are as of a reporting date or for a period that is different from that of the investor, and the reason for using a different reporting date or different period;**

    *(f) **The nature and extent of any significant restrictions (e.g., resulting from borrowing arrangements or regulatory requirements) on the ability of associates to transfer funds to the investor in the form of cash dividends or similar distributions, or repayment of loans or advances;**

    *(g) **The unrecognised share of losses of an associate, both for the period and cumulatively, if an investor has discontinued recognition of its share of losses of an associate;**

    *(h) **The fact that an associate is not accounted for using the equity method in accordance with paragraph 19; and**

    *(i) **Summarised financial information of associates, either individually or in groups, that are not accounted for using the equity method, including the amounts of total assets, total liabilities, revenues, and surpluses or deficits.**

44. **Investments in associates accounted for using the equity method shall be classified as non-current assets. The investor's share of the surplus or deficit of such associates, and the carrying amount of these investments shall be separately disclosed. The investor's share of any discontinued operations of such associates shall also be separately disclosed.**

45. **The investor's share of changes recognised in the associate's other comprehensive revenue and expense shall be recognised in other comprehensive revenue and expense by the investor.**

46. **In accordance with PBE IPSAS 19** ***Provisions, Contingent Liabilities and Contingent Assets*** **the investor shall disclose:**

    (a) **Its share of the contingent liabilities of an associate incurred jointly with other investors; and**

    (b) **Those contingent liabilities that arise because the investor is severally liable for all or part of the liabilities of the associate.**

Effective Date

47–48. [Not used]

48.1 **A public benefit entity shall apply this Standard for annual financial statements covering periods beginning on or after 1 April 2015. Earlier application is permitted for not-for-profit public benefit entities as long as the full suite of PBE Standards is applied at the same time.**

48.2 ***2016 Omnibus Amendments to PBE Standards*, issued in January 2017, amended paragraph 31.1 and added a footnote to paragraph 3. An entity shall apply those amendments for annual financial statements covering periods beginning on or after 1 January 2017.**

Withdrawal and Replacement of PBE IPSAS 7 (May 2013)

49. This Standard, when applied, supersedes PBE IPSAS 7 *Investments in Associates* issued in May 2013.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, PBE IPSAS 7.

BC1. The New Zealand Accounting Standards Board (NZASB) has modified IPSAS 7 *Investments in Associates* for application by Tier 1 and Tier 2 public benefit entities. Where applicable, disclosure concessions have been identified for Tier 2 entities and the language generalised for use by public benefit entities. The NZASB considered that the requirements of IPSAS 7 are generally appropriate for application by public benefit entities.

Reporting Period

BC2. IPSAS 7 requires that the difference in reporting dates between an investor and an associate be no more than three months. The NZASB agreed that, in the context of the New Zealand environment where some entities have statutory reporting dates, it was appropriate to provide an exemption under certain circumstances from this IPSAS 7 requirement. The NZASB noted that there is a similar exemption in PBE IPSAS 6.

Loss of Significant Influence

BC3. IPSAS 7 requires that, on losing significant influence, the carrying amount of that investment should be measured at cost as a financial asset. In contrast, PBE IPSAS 7 requires that the investment should be measured at fair value at that date. The NZASB considered that fair value is a more relevant measure of an investment at the date at which significant influence is lost, and better represents the initial measurement of the former associate as a financial asset.

BC4. Measuring any remaining investment at fair value when significant influence is lost also retains current practice. This ensures that an entity is not required to change the measurement basis for the remaining investment while the IPSASB finalises its project on revising IPSASs 6–8.

Comparison with IPSAS 7

PBE IPSAS 7 *Investments in Associates* is drawn from IPSAS 7 *Investments in Associates*.

The significant differences between PBE IPSAS 7 and IPSAS 7 are:

(a) PBE IPSAS 7 provides a limited number of exemptions from the requirement to account for associates using the equity method. One of these exemptions is for investments classified as held for sale in accordance with PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The corresponding exemption in IPSAS 7 is for investments acquired and held exclusively with a view to disposal within twelve months from acquisition and where management is actively seeking a buyer.

(b) PBE IPSAS 7 provides an exemption under certain circumstances from the requirement in IPSAS 7 that the difference between the reporting dates of an investor and its associate be no more than three months.

(c) On ceasing to be an associate, IPSAS 7 requires that any remaining investment be measured at carrying amount, whereas PBE IPSAS 7 requires that any remaining investment be measured at fair value.

(d) PBE Standards require the presentation of a statement of comprehensive revenue and expense. IPSASs require the presentation of a statement of financial performance.

History of Amendments

PBE IPSAS 7 *Investments in Associates* was issued in September 2014.

This table lists the pronouncements establishing and substantially amending PBE IPSAS 7. The table is based on amendments issued as at 31 January 2017 other than consequential amendments resulting from early adoption of PBE IFRS 9 *Financial Instruments*.

Pronouncements	**Date issued**	**Early operative date**	**Effective date (annual financial statements … on or after …)**
PBE IPSAS 7 *Investments in Associates*	Sept 2014	Early application is permitted for not-for-profit public benefit entities	1 April 2015
2016 Omnibus Amendments to PBE Standards	Jan 2017	–	1 Jan 2017

Table of Amended Paragraphs in PBE IPSAS 7		
Paragraph affected	**How affected**	**By … [date]**
Paragraph 3	Amended	*2016 Omnibus Amendments to PBE Standards* [Jan 2017]
Paragraph 31.1	Amended	*2016 Omnibus Amendments to PBE Standards* [Jan 2017]
Paragraph 48.2	Added	*2016 Omnibus Amendments to PBE Standards* [Jan 2017]