



IAS 28 Investments in Associates and Joint Ventures

Objective

This Standard is to prescribe the accounting for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

Scope

This Standard shall be applied by all entities that are investors with joint control of, or significant influence over, an investee.

IFRS 9 *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 returns associated with an ownership interest in an associate or a joint venture, the instruments are not subject to IFRS 9 *Financial Instruments*.

In all other cases, instruments containing potential voting rights in an associate or a joint venture are accounted for in accordance with IFRS 9 *Financial Instruments*.

Effective date

An entity shall apply this Standard for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies this Standard earlier, it shall disclose that fact and apply IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements* (as amended in 2011) at the same time.

Defined terms

An *associate* is an entity over which the investor has significant influence.

Consolidated financial statements are the financial statements of a group in which assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.

The *equity method* is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income.

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

Joint control is the contractually agreed sharing of control of an 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 the investee but is not control or joint control of those policies.

Significant influence

If an entity holds, directly or indirectly (e.g. through subsidiaries), twenty per cent (20%) 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 subsidiaries), less than twenty per cent (20%) 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.

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 other distributions;
- (c) material transactions between the entity and its investee;
- (d) interchange of managerial personnel; or
- (e) provision of essential technical information.

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, court, administrator or regulator. It could also occur as a result of a contractual arrangement.

Equity method

The investor accounts for this interest by extending the scope of its financial statements to include its share of the profit or loss of such an investee. As a result, application of the equity method provides more informative reporting of the investor's net assets and profit or loss.

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 profit or loss of the investee after the date of acquisition and the investor's share of the investee's profit or loss 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 be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income such as changes arising from the revaluation of property, plant and equipment and from foreign exchange translation differences and the investor's share of those changes is recognised in the investor's other comprehensive income.

Potential voting rights

When potential voting rights or other derivatives containing possible exercise or conversion of 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, an entity has, in substance, an existing ownership as a result of a transaction that currently gives it access to the returns 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 returns.

Application of the equity method

A group's share in an associate or a joint venture is the aggregate of the holdings in that associate or joint venture by the parent and its subsidiaries. The holdings of the group's other associates or joint ventures are ignored for this purpose.

When an associate or a joint venture has subsidiaries, associates or joint ventures, the profit or loss, other comprehensive income and net assets taken into account in applying the equity method are those recognised in the associate's or joint venture's financial statements after any adjustments necessary to give effect to uniform accounting policies.

Gains and losses resulting from 'upstream' and 'downstream' transactions involving assets that do not constitute a business between an entity (including its consolidated subsidiaries) 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. The entity's share in the associate's or the joint venture's gains or losses resulting from these transactions is eliminated.

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.

'Downstream' transactions are, for example, sales or contributions of assets from the investor to its associate or its joint venture.

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.

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:

Goodwill relating to an associate or a joint venture is included in the carrying amount of the investment. Amortisation of that goodwill is not permitted.

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 income in the determination of the entity's share of the associate or joint venture's profit or loss in the period in which the investment is acquired.

Adjustments

Depreciation and impairment losses:

Appropriate adjustments to the entity's share of the associate's or joint venture's profit or loss 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 profit or loss after acquisition are made for impairment losses such as for goodwill or property, plant and equipment.

Different reporting dates:

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 the associate or joint venture, the associate or joint venture prepares, for the use of the entity, financial statements as of the same date as the financial statements of the entity unless it is impracticable to do so.

When accounting policies are not uniform:

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

Share of losses equals or exceeds the interest in the associate or joint venture:

If an entity's share of losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture (which is the carrying amount of the investment in the associate or joint venture determined using the equity method together with any long-term interest), the entity discontinues recognising its share of further losses.

After the entity's interest is reduced to zero, additional losses 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 profits, the entity resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Exemptions from applying the equity method

An entity need not apply the equity method to its investment in an associate or a joint venture if the entity is a parent that is exempt from preparing consolidated financial statements if all the following apply:

- (a) The entity is a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and 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; and
- (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); and
- (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; and
- (d) The ultimate or any intermediate parent of the entity produces financial statements available for public use that comply with IFRSs, in which subsidiaries are consolidated or are measured at fair value through profit or loss.

Classification as held for sale

An entity shall apply IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* 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 IFRS 9 *Financial Instruments* unless the retained interest continues to be an associate or a joint venture, in which case the entity uses the equity method.

Changes in ownership interest

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 profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

Discontinuing the use of the equity method

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 subsidiary, the entity shall account for its investment in accordance with IFRS 3 *Business Combinations* and IFRS 10 *Consolidated Financial Statements*.
- (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 IFRS 9 *Financial Instruments*.
- (c) The entity shall recognise in profit or loss 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.
- (d) When an entity discontinues the use of the equity method, the entity shall account for all amounts previously recognised in other comprehensive income 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.

Therefore, if a gain or loss previously recognised in other comprehensive income by the investee would be reclassified to profit or loss on the disposal of the related assets or liabilities, the entity reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

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.

Impairment losses

After the application of the equity method, including recognising the associate's or joint venture's losses in accordance, the entity has to determine whether there is any objective evidence that its net investment in the associate or joint venture is impaired.

The entity applies the impairment requirements in IFRS 9 *Financial Instruments* to its other interests in the associate or joint venture that are in the scope of IFRS 9 *Financial Instruments* and that do not constitute part of the net investment.

Presentation and disclosure

There are no disclosures specified in this Standard. Instead, IFRS 12 *Disclosure of Interests in Other Entities* outlines the disclosures required for entities with joint control of, or significant influence over, an investee.