IPSASB Exposure Draft 50 *Investments in Associates and Joint Ventures*

AASB Staff Issues Paper

Introduction

1. The International Public Sector Accounting Standards Board (IPSASB) issued Exposure Draft (ED) 50 *Investments in Associates and Joint Ventures* (Agenda paper 12.4.1) in October 2013 and requested comments by 28 February 2014. This issues paper has been prepared by AASB staff with the intention of identifying any issues and comments that could be addressed in a submission to the IPSASB in respect of IPSAS ED 50.

2. The proposals in this ED are intended to combine the existing accounting in IPSAS 7 *Investments in Associates* and part of IPSAS 8 *Interests in Joint Ventures.* ED 50 is based on IAS 28 *Investments in Associates and Joint Ventures* (as amended in 2011)[1] and closely follows the requirements of that standard. The objective of the ED is to propose 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.

3. The most significant change in relation to IPSAS 8 is that ED 50 requires the use of the equity method for investments in joint ventures whereas IPSAS 8 allows the equity method as an alternative to proportionate consolidation.

4. Aside from terminology changes required for the public sector, there are two main differences between IAS 28 (as amended in 2011) and ED 50:

    (a) with reference to discontinuing the use of the equity method – additional guidance is included in paragraph 26(b) of ED 50 to allow that when a retained interest in a former associate or joint venture is a financial asset and published quotations are not available, ED 50 permits an entity to use the carrying amount as the cost on initial recognition of the financial asset. This differs from IAS 28 (as amended in 2011), which requires that the financial asset be recognised at fair value. This issue is discussed below under Specific Matter for Comment (SMC) 1; and

    (b) ED 50 only applies where an investor has a 'quantifiable ownership interest'; this is discussed below under Specific Matter for Comment 2. There were no similar amendments made to AASB 128 for the public sector in Australia.

Specific Matters for Comment

Specific Matter for Comment 1 of ED 50
Do you generally agree with the proposals in the Exposure Draft? If not, please provide reasons.

1 Incorporated in Australia into AASB 128 *Investments in Associates and Joint Ventures*

AASB Staff Analysis

5. As noted in paragraph 4 above, the requirements in ED 50 are largely the same as IAS 28 (as amended in 2011), except for some public sector terminology differences. However, at the time of issuance by the IPSASB the IASB had two outstanding proposals – ED/2013/3 *Equity Method: Share of Other Net Asset Changes* and ED/2013/6 *Sale or Contribution of Assets between Investor and its Associate or Joint Venture*. Therefore, these proposals have not been incorporated into ED 50.

6. Further, the rationale for the difference mentioned above in paragraph 4(a) has not been provided, and although AASB staff considers that the reason for the difference is public sector specific in that it may be difficult to obtain published quotations to obtain a fair value, as there is no IPSAS equivalent to IFRS 13 *Fair Value Measurement*. However, we consider this should be explained in the Basis for Conclusions.

7. That aside, given that the requirements in ED 50 are very similar to those in IAS 28 (as amended in 2011) staff generally agree with the proposals.

Question 1 to the Board

Do Board members agree with the staff comments regarding Specific Matter for Comment 1?

Specific Matter for Comment 2 of ED 50

Do you agree with the proposal that the scope of the Exposure Draft be restricted to situations where there is quantifiable ownership interest?

AASB Staff Analysis

8. The scope of IPSAS 7 is limited to investments in associates where the investment leads to the holding of an ownership interest in the form of a shareholding or other formal equity structure. It was noted in paragraph BC 4 of ED 50 that it was unlikely that equity accounting could be applied unless the associate had a formal or other reliably measurable equity structure.

9. However, because the proposals in ED 50 also apply to joint ventures and joint ventures, including partnership agreements that do not have formal equity structures, the IPSASB decided that the scope of the Standard should be restricted to investments where there is a quantifiable ownership interest.

10. A quantifiable ownership interest is described as one where it is possible to obtain a reliable measure of the ownership interest. As explained in paragraph 5 of ED 50, this amendment is required because some public sector entities may make contributions that would not otherwise be considered an investment because they may not give rise to an ownership interest, for example grants.

11. AASB staff agree that the proposals in ED 50 should be restricted to situations where there is a quantifiable ownership interest for the reasons expressed in ED 50

12. However, although paragraphs 4-5 of ED 50 explain ‘quantifiable ownership interest’ we question whether this should be a defined term and would welcome the Board’s view.

13. Staff note that no amendment has been made to the scope of AASB 128 for quantifiable ownership interest. Staff recommend further work be undertaken to consider whether a similar amendment may be appropriate for public sector and not-for-profit entities within Australia.

Question 2 to the Board

(a) Do Board members agree with the staff comment that the scope of ED 50 should be restricted to situations where there is quantifiable ownership interest?

(b) Do Board members agree that ‘quantifiable ownership interest’ should be a defined term?

(c) Do Board members wish staff to undertake further work to consider whether the scope of AASB 128 should be amended for public sector and not-for-profit entities to restrict AASB 128 to those entities that have a quantifiable ownership interest in an associate or joint venture?

Specific Matter for Comment 3 of ED 50

Do you agree with the proposal to require the use of the equity method to account for investments in joint ventures? If not, please provide reasons and indicate your preferred treatment.

AASB Staff Analysis

14. As mentioned in paragraph 3 above, the proposals for investments in joint ventures in ED 50 differ from those in IPSAS 8 in that ED 50 requires the use of the equity method (unless exemption apply) whereas the equity method in IPSAS 8 is the alternative method to proportionate consolidation.

15. The proposals in ED 50 are consistent with IAS 28 (as amended in 2011), which requires the use of the equity method unless the entity is exempted from applying it. Therefore, staff agree with the proposal to require the equity method for joint ventures.

Question 3 to the Board

Do Board members agree with the staff comment regarding the use of the equity method for investments in joint ventures?