Investments in Associates and Joint Ventures

This compiled Standard applies to annual periods beginning on or after 1 January 2018. Earlier application is permitted for annual periods beginning after 24 July 2014 but before 1 January 2018. It incorporates relevant amendments made up to and including 22 December 2015.

Prepared on 14 February 2016 by the staff of the Australian Accounting Standards Board

Australian Government

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Contents

Australian Accounting Standard AASB 128 *Investments in Associates and Joint Ventures* (as amended) is set out in paragraphs 1 – Aus47.2. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. AASB 128 is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation of Standards*, which identifies the Australian Accounting Interpretations, and AASB 1057 *Application of Australian Accounting Standards*. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

Comparison with IAS 28

AASB 128 *Investments in Associates and Joint Ventures* as amended incorporates IAS 28 *Investments in Associates and Joint Ventures* as issued and amended by the International Accounting Standards Board (IASB). Australian-specific paragraphs (which are not included in IAS 28) are identified with the prefix "Aus". Paragraphs that apply only to not-for-profit entities begin by identifying their limited applicability.

Tier 1

For-profit entities complying with AASB 128 also comply with IAS 28.

Not-for-profit entities' compliance with IAS 28 will depend on whether any "Aus" paragraphs that specifically apply to not-for-profit entities provide additional guidance or contain applicable requirements that are inconsistent with IAS 28.

AASB 1053 *Application of Tiers of Australian Accounting Standards* explains the two tiers of reporting requirements.

Accounting Standard AASB 128

The Australian Accounting Standards Board made Accounting Standard AASB 128 *Investments in Associates and Joint Ventures* under section 334 of the *Corporations Act 2001* on 7 August 2015.

This compiled version of AASB 128 applies to annual periods beginning on or after 1 January 2018. It incorporates relevant amendments contained in other AASB Standards made by the AASB up to and including 22 December 2015 (see Compilation Details).

Accounting Standard AASB 128
Investments in Associates and Joint Ventures

Objective

1 **The objective of 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

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

Definitions

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

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.**

4 The following terms are defined in paragraph 4 of AASB 127 *Separate Financial Statements* and in Appendix A of AASB 10 *Consolidated Financial Statements* and are used in this Standard with the meanings specified in the Standards in which they are defined:

- control of an investee
- group
- parent
- separate financial statements
- subsidiary.

Significant influence

5 If an entity holds, directly or indirectly (eg through subsidiaries), 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 (eg through subsidiaries), 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.

6 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.

7 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 (ie 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.

8 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 contractual 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.

9 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

10 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. 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 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 income (see AASB 101 *Presentation of Financial Statements*).

11 The recognition of income on the basis of distributions received may not be an adequate measure of the income 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 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.

12 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 13 applies.

13 In some circumstances, 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.

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

15 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 AASB 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

16 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 17–19.

Exemptions from applying the equity method

17 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 by the scope exception in paragraphs 4(a), Aus4.1 and Aus4.2 of AASB 10 or 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.

(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 parent of the entity produces financial statements available for public use that comply with International Financial Reporting Standards, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with AASB 10.

Aus17.1 Notwithstanding paragraph 17(d), an entity that meets the criteria in paragraphs 17(a), 17(b) and 17(c) need not apply the equity method in accounting for an interest in an associate or joint venture if its ultimate or any intermediate parent produces financial statements that are available for public use in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with AASB 10 and:

(a) the investor or the joint venturer and its ultimate or intermediate parent are:

(i) both not-for-profit entities complying with Australian Accounting Standards; or

(ii) both entities complying with Australian Accounting Standards – Reduced Disclosure Requirements; or

(b) the investor or the joint venturer is an entity complying with Australian Accounting Standards – Reduced Disclosure Requirements and its ultimate or intermediate parent is a not-for-profit entity complying with Australian Accounting Standards.

Aus17.2 Notwithstanding paragraphs 17 and Aus17.1, the ultimate Australian entity shall apply the equity method in accounting for interests in associates and joint ventures in accordance with this Standard when either the entity or the group is a reporting entity, or both the entity and the group are reporting entities, except if the ultimate Australian parent is required, in accordance with paragraph 31 of AASB 10, to measure all of its subsidiaries at fair value through profit or loss.

18 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 investments in those associates and joint ventures at fair value through profit or loss in accordance with AASB 9.

19 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 profit or loss in accordance with AASB 9 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.

Classification as held for sale

20 An entity shall apply AASB 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 AASB 9 unless the retained interest continues to be an associate or a joint venture, in which case the entity uses the equity method.

21 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

22 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 AASB 3 *Business Combinations* and AASB 10.

(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 AASB 9. 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.

(c) 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.

23 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. 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 profit or loss the gain or loss that had previously been recognised in other comprehensive income in relation to the foreign operation.

24 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

25 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.

Equity method procedures

26 Many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in AASB 10. Furthermore, the concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted in accounting for the acquisition of an investment in an associate or a joint venture.

27 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 (including the associate's or joint venture's share of the profit or loss, other comprehensive income and net assets of its associates and joint ventures), after any adjustments necessary to give effect to uniform accounting policies (see paragraphs 35–36A).

28 Gains and losses resulting from 'upstream' and 'downstream' transactions involving assets that do not constitute a business, as defined in AASB 3, 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. 'Downstream' transactions are, for example, sales or contributions of assets from the investor to its associate or its joint venture.

29 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.

30 The gain or loss resulting from the contribution of non-monetary assets that do not constitute a business, as defined in AASB 3, to an associate or a joint venture in exchange for an equity interest in that associate or joint venture shall be accounted for in accordance with paragraph 28, except when the contribution lacks commercial substance, as that term is described in AASB 116 *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 31 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.

31 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 profit or loss the portion of the gain or loss on the non-monetary contribution relating to the monetary or non-monetary assets received.

31A The gain or loss resulting from a downstream transaction involving assets that constitute a business, as defined in AASB 3, between an entity (including its consolidated subsidiaries) and its associate or joint venture is recognised in full in the investor's financial statements.

31B An entity might sell or contribute assets in two or more arrangements (transactions). When determining whether assets that are sold or contributed constitute a business, as defined in AASB 3, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction in accordance with the requirements in paragraph B97 of AASB 10.

32 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) 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.

(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 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.

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.

33 **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.**

34 **When, in accordance with paragraph 33, the financial statements of an associate or a joint venture used in applying the equity method are prepared as of a date different from that used by the entity, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the entity's financial statements. In any case, the difference between the end of the reporting period of the associate or joint venture and that of the entity shall be no more than three months. The length of the reporting periods and any difference between the ends of the reporting periods shall be the same from period to period.**

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

36 Except as described in paragraph 36A, 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.

36A Notwithstanding the requirement in paragraph 36, if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries.

37 Except as described in paragraph 36A, 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 profit or loss after adjusting for the dividends on such shares, whether or not the dividends have been declared.

38 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, the entity discontinues recognising its share of further losses. 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. Losses 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 (ie priority in liquidation).

39 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.

Impairment losses

40 After application of the equity method, including recognising the associate's or joint venture's losses in accordance with paragraph 38, the entity applies paragraphs 41A–41C to determine whether there is any objective evidence that its net investment in the associate or joint venture is impaired.

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

41A 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.

41B 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.

41C In addition to the types of events in paragraph 41A, 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.

42 Because goodwill that forms part of the carrying amount of the net investment in an associate or a joint venture is not separately recognised, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in AASB 136 *Impairment of Assets*. Instead, the entire carrying amount of the investment is tested for impairment in accordance with AASB 136 as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount whenever application of paragraphs 41A–41C indicates that the net investment may be impaired. An impairment loss recognised in those circumstances is not allocated to any asset, including goodwill, that forms part of the carrying amount of the net investment in the associate or joint venture. Accordingly, any reversal of that impairment loss is recognised in accordance with AASB 136 to the extent that the recoverable amount of the net investment subsequently increases. In determining the value in use of the net investment, 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 to be received from the investment and from its ultimate disposal.

Using appropriate assumptions, both methods give the same result.

43 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

44 An investment in an associate or a joint venture shall be accounted for in the entity's separate financial statements in accordance with paragraph 10 of AASB 127.

Effective date and transition

45 An entity shall apply this Standard for annual periods beginning on or after 1 January 2018. Earlier application is permitted for periods beginning after 24 July 2014 but before 1 January 2018. If an entity applies this Standard earlier, it shall disclose that fact and apply AASB 10, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities* and AASB 127 at the same time.

45A AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)*, issued in December 2014, amended the previous version of this Standard as follows: amended paragraphs 40–42 and added paragraphs 41A–41C. An entity shall apply those amendments when it applies AASB 9.

45B AASB 2014-9 *Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements*, issued in December 2014, amended paragraph 25 in the previous version of this Standard. An entity shall apply that amendment for annual periods beginning on or after 1 January 2016 retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. Earlier application is permitted. If an entity applies that amendment for an earlier period, it shall disclose that fact.

45C AASB 2014-10 *Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*, issued in December 2014, in conjunction with AASB 2015-10 *Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128*, amended paragraphs 28 and 30 and added paragraphs 31A–31B. An entity shall apply those amendments prospectively to the sale or contribution of assets occurring in annual periods beginning on or after 1 January 2018. Earlier application is permitted. If an entity applies those amendments earlier, it shall disclose that fact.

45D AASB 2015-5 *Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception*, issued in January 2015, amended the previous version of this Standard as follows: amended paragraphs 17, Aus17.1, Aus17.2, 27 and 36 and added paragraph 36A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

References to AASB 9

46 If an entity applies this Standard but does not yet apply AASB 9, any reference to AASB 9 shall be read as a reference to AASB 139.

Withdrawal of IAS 28 (2003)

47 [Deleted by the AASB]

Commencement of the legislative instrument

Aus47.1 For legal purposes, this legislative instrument commences on 31 December 2017.

Withdrawal of AASB pronouncements

Aus47.2 This Standard repeals AASB 128 *Investments in Associates and Joint Ventures* issued in August 2011. Despite the repeal, after the time this Standard starts to apply under section 334 of the Corporations Act (either generally or in relation to an individual entity), the repealed Standard continues to apply in relation to any period ending before that time as if the repeal had not occurred.

[Note: When this Standard applies under section 334 of the Corporations Act (either generally or in relation to an individual entity), it supersedes the application of the repealed Standard.]

Compilation details
Accounting Standard AASB 128 *Investments in Associates and Joint Ventures*

Compilation details are not part of AASB 128.

This compiled Standard applies to annual periods beginning on or after 1 January 2018. It takes into account amendments up to and including 22 December 2015 and was prepared on 14 February 2016 by the staff of the Australian Accounting Standards Board (AASB).

This compilation is not a separate Accounting Standard made by the AASB. Instead, it is a representation of AASB 128 (August 2015) as amended by other Accounting Standards, which are listed in the Table below.

Table of Standards

Standard	Date made	FRLI identifier	Commence-ment date	Effective date *(annual periods … on or after …)*	Application, saving or transitional provisions
AASB 128	7 Aug 2015	F2015L01543	31 Dec 2017	*(beginning)* 1 Jan 2018	see (a) below
AASB 2015-10	22 Dec 2015	F2016L00035	31 Dec 2015	*(beginning)* 1 Jan 2016	see (b) below

(a) Entities may elect to apply this Standard to annual periods beginning after 24 July 2014 but before 1 January 2018, provided that AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities* and AASB 127 *Separate Financial Statements* are also applied to such periods.

(b) Entities may elect to apply the amendments in this Standard to annual periods beginning before 1 January 2018.

Table of amendments

Paragraph affected	How affected	By … [paragraph]
45C	amended	AASB 2015-10 [11, 12]

Deleted IAS 28 text

Deleted IAS 28 text is not part of AASB 128.

47 This Standard supersedes IAS 28 *Investments in Associates* (as revised in 2003).

Basis for Conclusions on AASB 2011-5 and AASB 2011-6

This Basis for Conclusions accompanies, but is not part of, AASB 128. The Basis for Conclusions was originally published with AASB 2011-6 Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation – Reduced Disclosure Requirements.

Introduction

BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's considerations in reaching the conclusions in AASB 2011-5 *Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation* and AASB 2011-6 *Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation – Reduced Disclosure Requirements*. Individual Board members gave greater weight to some factors than to others.

Background

BC2 Paragraph 10 of AASB 127 *Consolidated and Separate Financial Statements* (in common with IAS 27 *Consolidated and Separate Financial Statements*) provides relief from preparing consolidated financial statements for parents that meet four criteria, including having an ultimate parent or an intermediate parent that prepares IFRS-compliant consolidated financial statements (paragraph 10(d)).

BC3 Due to the addition of Aus paragraphs in IFRSs as adopted in Australia, the financial statements of some entities applying Australian Accounting Standards are not IFRS compliant. This means that a parent that has an ultimate parent or other intermediate parent that prepares non-IFRS-compliant consolidated financial statements does not have access to the exemption from consolidation provided in paragraph 10 of AASB 127, even if the criteria in paragraphs 10(a) to 10(c) are met.

BC4 Similarly, investors need not apply the equity method when they meet the four criteria in paragraph 13(c) of AASB 128 *Investments in Associates* and venturers need not apply proportionate consolidation or the equity method when they meet the four criteria in paragraph 2(c) of AASB 131 *Interests in Joint Ventures*. The criteria in paragraph 10 of AASB 127, paragraph 13(c) of AASB 128 and paragraph 2(c) of AASB 131 are similar.

BC5 Consequently, the exemptions from the equity method and proportionate consolidation are also not available under those paragraphs to an investor or a venturer when its ultimate parent or intermediate parent prepares non-IFRS-compliant consolidated financial statements.

BC6 The AASB issued Exposure Draft ED 205 *Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation* in September 2010. The AASB considered the submissions received from constituents and confirmed the principal approach proposed in the Exposure Draft.

New Zealand approach

BC7 During its development of ED 205, the AASB noted that a related issue was considered by the Financial Reporting Standards Board (FRSB) of the New Zealand Institute of Chartered Accountants in December 2008. This concerned the requirement in paragraph 10(d) of NZ IAS 27 *Consolidated and Separate Financial Statements* that the parent's financial statements must be 'available for public use'. Due to the reporting requirements in New Zealand, not all entities are required to file their financial statements with the Companies Office. Hence, when a parent of a group is not required to submit its financial statements, any intermediate subsidiaries were unable to use the paragraph 10 exemption. As a result, the FRSB inserted paragraph NZ 3.1 into NZ IAS 27 so that entities that qualify for differential reporting concessions were not required to comply with paragraph 10(d). In order to qualify for the exemption not to present consolidated financial statements, qualifying entities were still required to comply with all the other conditions in paragraph 10.

BC8 In addition, the AASB noted that the FRSB had inserted a similar exemption into NZ IAS 28 *Investments in Associates* (paragraph NZ 1.2) and NZ IAS 31 *Interests in Joint Ventures* (paragraph NZ 1.1), extending the relief from application of the equity method by investors and proportionate consolidation or the equity method by venturers.

BC9 The AASB did not follow the FRSB's specific approach for qualifying entities, given the different issues faced by the two Boards and the different financial reporting framework in New Zealand, including its differential reporting framework that involves modifications to the recognition and measurement requirements of IFRSs.

Extending the exemptions

BC10 The AASB considered the limitations on the exemptions and developed a view that relief from consolidation, the equity method and proportionate consolidation should be extended to a not-for-profit or Tier 2 parent, investor or venturer if it:

(a) has a parent higher up in the group that prepares consolidated financial statements (whether or not IFRS-compliant) that are available for public use and:

(i) those consolidated financial statements incorporate the information that would otherwise have been presented in the parent's consolidated financial statements or the investor's or venturer's financial statements; or

(ii) the parent, investor or venturer is an entity complying with Australian Accounting Standards – Reduced Disclosure Requirements ('Tier 2'); and

(b) meets the criteria in paragraphs 10(a) to 10(c) of AASB 127, paragraphs 13(c)(i) to 13(c)(iii) of AASB 128 or paragraphs 2(c)(i) to 2(c)(iii) of AASB 131, as relevant.

BC11 This view is based on the principle that financial statement users would be able to satisfy their information needs through the consolidated financial statements prepared by the parent higher up in the group. However, the AASB decided that such relief should not be available in relation to the General Government Sector (GGS) of each Federal, State and Territory Government due to the unique circumstances related to the GGS, its relationship to the whole of government and its macro-economic significance. The AASB also decided that the partial consolidation basis for GGS financial statements required by AASB 1049 *Whole of Government and General Government Sector Financial Reporting* would not be amended.

BC12 Consistent with IAS 27, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*, the AASB decided that the existing relief provided under paragraph 10 of AASB 127, paragraph 13(c) of AASB 128 and paragraph 2(c) of AASB 131 should be retained. The extension of relief on the basis set out in paragraph BC10 does not change the present requirements for relief when the ultimate or intermediate parent is a for-profit Tier 1 entity – that entity is still required to prepare IFRS-compliant consolidated financial statements.

Not-for-profit ultimate or intermediate parent

BC13 When the ultimate or intermediate parent is a not-for-profit Tier 1 entity, and the parent, investor or venturer is a for-profit Tier 1 entity, the relief is not available where there are differences in the basis of accounting between the not-for-profit and for-profit entities as a result of the not-for-profit entity applying Standards or Aus paragraphs that contain requirements that are inconsistent with IFRS requirements. Extending relief to the for-profit Tier 1 parent, investor or venturer in this case would be beyond the scope of the relief available under IFRSs. However, the relief is available when the not-for-profit entity is not required to apply such inconsistent requirements. This is indicated by footnote to the table in paragraph AG1 of the Australian application guidance added to AASB 127. In this case, the for-profit Tier 1 entity would be able to claim compliance with IFRSs in that the relief is within the scope of the relief available under IFRSs.

BC14 The AASB considered the extension of relief to a for-profit Tier 2 parent, investor or venturer that has a not-for-profit ultimate or intermediate parent. The table in the Basis for Conclusions in ED 205 proposed that relief should be available to a parent, investor or venturer in these circumstances, which appears to be inconsistent with the circumstances addressed in paragraph BC13. The AASB considered three approaches to addressing the apparent inconsistency:

(a) amend the table proposed in ED 205 to indicate that the relief would not be available;

(b) retain the approach proposed in ED 205, that the relief would be available, and extend the justification in the Basis for Conclusions for this position; or

(c) retain the approach proposed in ED 205 with no amendment to the justification.

BC15 The AASB adopted the approach in paragraph BC14(b), extending the relief, based on its judgement that the relief would be reasonable for Tier 2 parents, investors or venturers despite any differences in the basis of accounting in the consolidated financial statements of the ultimate or intermediate parent that are publicly available. Typically, the not-for-profit ultimate or intermediate parent would not be able to claim compliance with IFRSs, and the Tier 2 parent, investor or venturer could not do so.

For-profit public sector entities

BC16 The AASB decided that relief would not be available to a parent entity merely because the intermediate parent preparing consolidated financial statements is a for-profit Tier 1 public sector entity unable to claim compliance with IFRSs. This decision was made on the basis that a for-profit public sector entity may apply requirements in particular Standards, such as AASB 1004 Contributions, and Aus paragraphs in other Australian Accounting Standards that are inconsistent with an IFRS requirement. However, relief may be available to the parent entity on another basis permitted by the Standard.

BC17 Relief is (or is not) available to a for-profit public sector entity as the parent, investor or venturer on the same basis as for any other for-profit parent, investor or venturer.

Other changes

BC18 The AASB also decided that, consistent with paragraph 10(d) of AASB 127, the references to 'Australian equivalents to IFRSs' in paragraph 13(c)(iv) of AASB 128 and paragraph 2(c)(iv) of AASB 131 should be amended to 'International Financial Reporting Standards'.

BC19 The AASB decided to include the summary table set out in the Basis for Conclusions in the Exposure Draft as Australian application guidance accompanying, but not part of, the amended AASB 127. Whereas the table in the Exposure Draft addressed relief in relation to both not-for-profit entities and entities applying reduced disclosure requirements under AASB 1053 *Application of Tiers of Australian Accounting Standards*, the table added to the AASB 127 guidance by AASB 2011-5 addresses not-for-profit entities but not reduced disclosure requirements.

Reduced disclosure requirements

BC20 Exposure Draft ED 205, in addition to addressing relief for not-for-profit entities, also proposed the extension of relief to entities applying Australian Accounting Standards – Reduced Disclosure Requirements under AASB 1053. The AASB decided that relief should be extended to Tier 2 entities, either on the same basis as for not-for-profit entities or as addressed in paragraphs BC14 and BC15. Accounting Standard AASB 2011-6 provides this relief. That Standard also expands the table in the Australian application guidance accompanying AASB 127 to address entities applying reduced disclosure requirements.

BC21 Whereas AASB 2011-5 applies to annual reporting periods beginning on or after 1 July 2011, AASB 2011-6 applies to annual reporting periods beginning on or after 1 July 2013, being the application date of the reduced disclosure requirements under AASB 1053. Accordingly, two amending Standards were prepared to reflect the different application dates. Early application of each Standard is permitted. Early application of AASB 2011-6 requires early application of AASB 1053.

Basis for Conclusions on AASB 2015-4

This Basis for Conclusions accompanies, but is not part of, AASB 128. The Basis for Conclusions was originally published with AASB 2015-4 Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent.

Introduction

BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's considerations in reaching the conclusions in AASB 2015-4 *Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent*. Individual Board members gave greater weight to some factors than to others.

BC2 In September 2014, the Board identified that the requirements of AASB 10 *Consolidated Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* in relation to the requirement for an Australian parent entity to apply the requirements of AASB 10 and/or AASB 128 when either the parent or the group is a reporting entity, or both the parent and the group are reporting entities, were not aligned. Specifically, AASB 10 requires the ultimate Australian parent to prepare consolidated financial statements, even where the entity has a foreign parent that prepares consolidated financial statements that comply with IFRSs, when either the parent or the group is a reporting entity or both the parent and the group are reporting entities. AASB 128 did not include a similar requirement in relation to the application of the equity method by the ultimate Australian parent.

BC3 The Board noted that this difference arose when issuing AASB 128 in 2011 in which the Board adopted the IFRS wording in IAS 28 paragraph 17(d) without amendment. The superseded AASB 128 *Investments in Associates* (July 2004) included similar relief for parent entities from applying the equity method in accounting for an interest in an associate or joint venture, but limited that relief to parent entities other than the ultimate Australian parent.

BC4 In December 2014 the Board decided that the relief in AASB 128 should apply to the ultimate Australian entity, rather than the ultimate Australian parent, to better align the requirements in AASB 128 with the relief available in AASB 10.

BC5 The Board decided to conduct further research before deciding whether to undertake a project to reconsider whether to limit the exceptions in AASB 10 and AASB 128 from presenting consolidated financial statements or applying the equity method to entities other than the ultimate Australian entity. In the interim, the Board decided to amend AASB 128 to require that the ultimate Australian entity apply the equity method in accounting for an interest in an associate or joint venture, to be consistent with the requirement in AASB 10 for the ultimate Australian parent to present consolidated financial statements when either the parent or the group is a reporting entity or both the parent and the group are reporting entities. The amendment aligns the requirements of AASB 10 and AASB 128 in this regard and is substantively consistent with the limitation on the relief previously available to entities under the superseded AASB 128.