

# TREASURY ANALYSIS – INTERNATIONAL ACCOUNTING STANDARDS

## AASB 128 “Investments in Associates” replaces AAS 14/AASB 1016 “Accounting for Investments in Associates”

### Major impacts

- The scope exclusions are different under AASB 128 and AASB 1016; eg partnerships over which the investor has significant influence are included in the definition of “associate” under AASB 128 but were excluded under AASB 1016.
- Disclosure requirements are different under the two standards.

### Key features of the Standard

- AASB 128 substantially replicates the requirements of AASB 1016, except for the areas discussed under “main differences” below.

### Main differences compared to current Australian requirements

- Under AASB 128 and AASB 1016 associates are identified based on “significant influence”. In AASB 128 significant influence is defined as the power to participate in financial **and** operating policy decisions of the investee (para 2). In AASB 1016, significant influence was the power to influence **either or both** financial and operating policy decisions. However, the guidance for determining whether or not significant influence exists is similar under both standards. Therefore, any difference in classification is unlikely.
- AASB 128 requires application of the equity method for investments in associates, unless:
  - the investor is in the business of investment; eg venture capital organisations, mutual funds, unit trusts, in which case AASB 139 *Financial Instruments: Recognition and Measurement* applies and the investment is measured at fair value with changes recognised in profit or loss (para 1), or
  - the investment is classified as held for sale in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, in which case AASB 5 applies and the investment is measured at the lower of carrying amount and fair value less costs to sell (paras 13(a) and 14); or
  - the venturer is itself a subsidiary and the owners do not object to the venturer not applying the equity method; the venturer’s debt or equity instruments are not publicly traded; the venturer did not propose to issue any class of instruments in a public market; and the parent produces consolidated financial reports that comply with Australian equivalents to IFRSs, in which case the investment is measured either at cost or in accordance with AASB 139 (para 13(c)).
 AASB 1016 applied the equity method where investments were not recognised in accordance with another accounting standard.
- Under AASB 128 (paras 24-25), the reporting date of the associate cannot be more than three months different to the reporting date of the investor. AASB 1016 merely required the difference to be consistent from year to year.
- AASB 128 requires disclosures not required under AASB 1016, including (paras 37-40):
  - unrecognised share of losses when the carrying amount of the investment has been reduced to zero
  - fair value of investments where there are published price quotations
  - where an investor holds 20% or more of the voting power but has concluded that it does not have significant influence
  - where an investor holds less than 20% but has concluded that it has significant influence
  - the fact that an associate is not accounted for under the equity method plus summarised financial information
  - information on significant restrictions and discontinuing operations of associates classifying equity method investments as non-current assets

**Impact on the public sector**

- No differential impact.

**Policy and Implementation issues (see attached)**

- AASB 1 *First Time Adoption of Australian International Financial Reporting Pronouncements* provides three alternatives for retrospective application of AASB 128 including an option not to apply AASB 128 retrospectively. Treasury is likely to mandate that agencies do not apply AASB 128 retrospectively.
- Agencies need to review investments and determine whether equity accounting is required.

This summary has been written in general terms and is intended for reference only. Agencies are strongly recommended to review the contents of the Standard to determine its application in particular circumstances.

**SUMMARY OF POLICY, IMPLEMENTATION & SYSTEM ISSUES  
AASB 128 “INVESTMENTS IN ASSOCIATES”  
TREASURY & AGENCIES**

	Issue	Treasury Policy		System/ Implementation Issue	GFS Issues	Total State Sector Issues
		Mandate Option	Additional guidance			
1	First time adoption – may elect not to apply AASB 128 retrospectively to past acquisitions of investments in associates.	√ Agencies not to apply AASB 128 retrospectively				√
2	Agencies to review investments and determine whether equity accounting is required.			√		√