This accounting policy paper is based on IPSAS 36 Investments in Associates and Joint Ventures, as adopted by the Treasury of the Republic of Cyprus.

Investments in Associates and Joint Ventures

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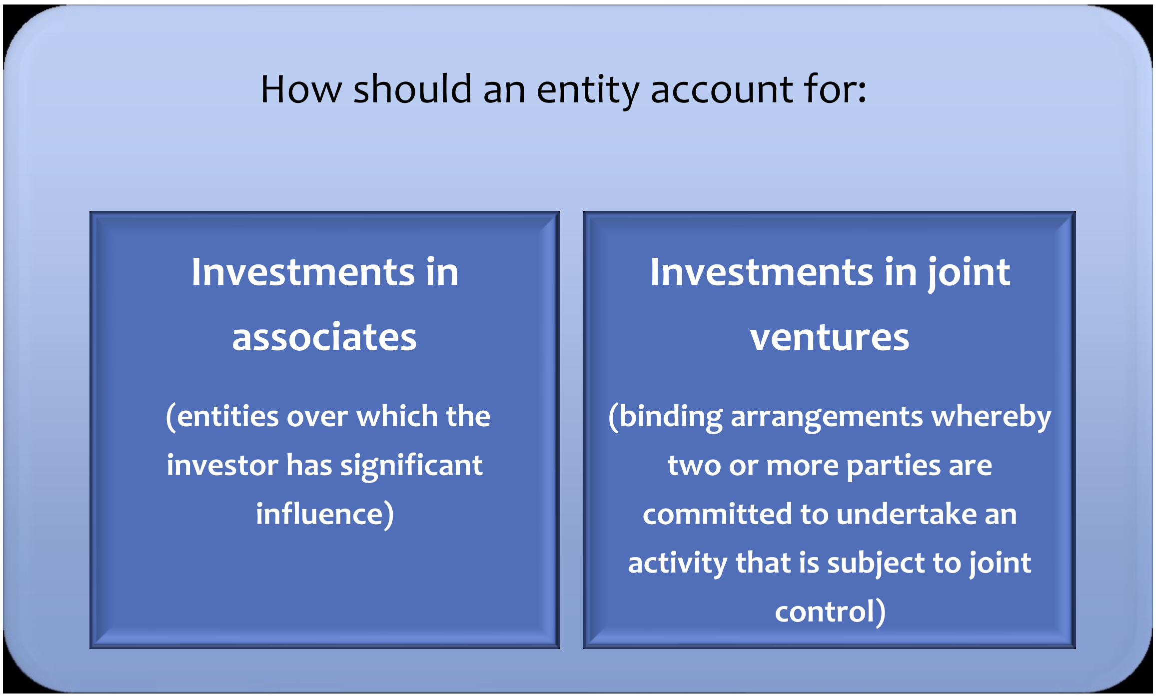
1. INTRODUCTION

1.1 Overview



1.2 Objectives

The objective of this accounting policy is to prescribe the accounting treatment 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.

The aim of this policy is to provide technical accounting guidance for the preparation of financial statements, so as to enable the financial statements to give a true and fair view. The aforementioned policy is prepared following guidance from all relevant International Public Sector Accounting Standards (IPSASs).

1.3 Scope

An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this policy in accounting for investments in associates and joint ventures. This policy shall be applied by all entities that are investors with significant influence over, or joint control of, an investee where the investment leads to the holding of a quantifiable ownership interest.

1.4 DEFINITIONS

Associate is an entity over which the investor has significant influence.

Benefits are the advantages an entity obtains from its involvement with other entities. Benefits may be financial or non-financial. The actual impact of an entity's involvement with another entity can have positive or negative aspects.

Binding arrangement – for the purposes of this policy, a binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to it as if it were in the form of a contract. It includes rights from contracts or other legal rights.

Consolidated financial statements are the financial statements of an economic entity in which the assets, liabilities, net assets/ equity, revenue, expenses and cash flows of the controlling entity and its controlled entities are prepared as those of a single economic entity.

Control - An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.

Controlled entity is an entity that is controlled by another entity.

Controlling entity is an entity that controls one or more entities.

Economic entity is a controlling entity and its controlled entities.

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/equity of the associate or joint venture. The investor's surplus or deficit includes its share of the investee's surplus or deficit and the investor's net assets/equity includes its share of changes in the investee's net assets/equity that have not been recognised in the investee's surplus or deficit.

Investment entity is an entity that:

a) Obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
b) Has the purpose of investing funds solely for returns from capital appreciation, investment revenue, or both; and
c) Measures and evaluates the performance of substantially all of its investments on a fair value basis.

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

Joint control is the agreed sharing of control of an arrangement by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

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.

Joint venturer is a party to a joint venture that has joint control of that joint venture.

Power consists of existing rights that give the current ability to direct the relevant activities of another entity.

Recoverable amount (of an asset or a cash-generating unit) is the higher of an asset's or a cash-generating unit's fair value less costs to sell and its value in use.

Separate financial statements are those presented by an entity, in which the entity could elect, subject to the requirements of this accounting policy, to account for its investments in controlled entities, joint ventures and associates either at cost, in accordance with the Accounting Policy for Financial Instruments, or using the equity method as described in the Accounting Policy for Investments in Associates and Joint Ventures.

Significant influence is the power to participate in the financial and operating policy decisions of another entity but is not control or joint control of those policies.

Any other terms defined in other accounting policies that have been adopted by the government of the Republic of Cyprus, have the meaning presented in those accounting policies.

2. SIGNIFICANT INFLUENCE

If an entity holds, directly or indirectly (e.g. through controlled entities), 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 (e.g. through controlled entities), 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.

This accounting policy applies only to those associates in which the entity holds a quantifiable ownership interest either in the form of a shareholding or other formal equity structure or in another form in which the entity's interest can be measured reliably.

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 similar distributions;
c) Material transactions between the entity and its investee;
d) Interchange of managerial personnel; or
e) Provision of essential technical information.

When assessing whether it has significant influence, an entity considers the existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities. In assessing whether potential voting rights contribute to significant influence, the entity examines all the facts and circumstances that affect potential rights, except the intentions of management and the financial ability to exercise or convert those potential rights.

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 government, a court or an administrator. It could also occur as a result of a binding arrangement.

3. EQUITY METHOD

3.1 GENERAL

An investment in an associate or a joint venture accounted for under the equity method shall be classified as a non-current asset.

Under the equity method:

- Upon 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 surplus or deficit of the investee after the date of acquisition.

- The investor's share of the investee's surplus or deficit is recognised in the investor's surplus or deficit.
- Distributions received from the investee reduces the 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 equity that have not been recognised in the investee's surplus or deficit, such as changes 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 net assets/equity of the investor.

3.2 APPLICATION OF THE EQUITY METHOD

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.

3.2.1 EXEMPTIONS

An entity shall *not* apply the equity method to its investment in an associate or joint venture:

1. If the entity is a controlling entity that is exempt from preparing consolidated financial statements by the scope exemption in paragraph 3.1 of the Accounting Policy for Consolidated Financial Statements; or
2. If ***all*** of the following apply:
    1. The entity itself is a controlled entity and the information needs of users are met by the controlling entity's consolidated financial statements, and all 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.
    2. 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).
    3. 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.
    4. The ultimate or any intermediate controlling entity of the entity produces financial statements available for public use that comply with IPSASs, in

which controlled entities are consolidated or are measured at fair value in accordance with IPSAS 35 Consolidated Financial Statements.

3. When the entity elects to measure its investments in associates and joint ventures at fair value through surplus or deficit in accordance with the Accounting Policy for Financial Instruments. This election shall be made by the entity if it is an investment entity or if 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.

3.2.2 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:

1. If the investment becomes a controlled entity, the entity shall account for its investment in accordance with the Accounting Policies for Consolidated Financial Statements and Public Sector Combinations.
2. 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 the Accounting Policy for Financial Instruments. If an entity is precluded by the Accounting Policy for Financial Instruments from measuring the retained interest at fair value, the entity shall measure the retained interest at the carrying amount of the investment at the date that it ceases to be an associate or joint venture and that carrying amount shall be regarded as its cost on initial recognition as a financial asset in accordance with the Accounting Policy for Financial Instruments. The entity shall recognise in surplus or deficit any difference between:
   i. The fair value (or, where relevant the carrying amount) 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.
3. When an entity discontinues the use of the equity method, the entity shall account for all amounts previously recognised directly in the entity's net assets/equity 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.

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.

3.2.3 EQUITY METHOD PROCEDURES

1. 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) When an entity has included goodwill relating to an associate or a joint venture 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 revenue in the determination of the entity's share of the associate or joint venture's surplus or deficit in the period in which the investment is acquired.

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

Gains and losses resulting from "upstream" and "downstream" transactions involving assets that do not constitute an operation, as defined in the Accounting Policy for Public Sector Combinations, between an entity (including its consolidated controlled entities) and its associate or joint venture are recognised in the entity's financial statements only to the extent of unrelated investor's 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.

2. 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 an associate or a joint venture the entity uses the most recent financial statements of the associate or joint venture adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the entity's financial statements.

3. 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. However, if an entity has an interest in an associate or a joint venture that is an investment entity, the entity shall, when applying the equity method, retain the fair value measurement applied by that investment entity associate or joint venture to its interest in controlled entities.

3.2.4 Impairment Losses

After the application of the equity method, including recognising the associate's or joint venture's deficits, the entity applies the Accounting Policy for Financial Instruments to determine whether it is necessary to recognise any additional impairment loss with respect to its net investment in the associate or joint venture. The same accounting policy shall be used to determine whether any additional impairment loss is recognised with respect to its interest in the associate or joint venture that does not constitute part of the net investment and the amount of that impairment loss.

Whenever there is an indication, following application of the Accounting Policy for Financial Instruments, that the investment in an associate or a joint venture may be impaired, the entity applies the Accounting Policy for Impairment of Assets (IPSAS 21 & 26).

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.

4. DISCLOSURE

There are no disclosure requirements applicable for this accounting policy.

5. TRANSITIONAL PROVISIONS

5.1 Associate Becomes First-Time Adopter Later or Earlier Than its Controlling Entity

1. If an associate or joint venture of an entity that has significant influence or control over that associate or joint venture, becomes a first-time adopter later than the entity that has significant influence or control over the associate or joint venture, except for an associate

or joint venture of an investment entity, the associate or joint venture shall, in its financial statements, measure its assets and liabilities at the carrying amounts required by IPSAS 33, based on the associate or joint venture's date of adoption of IPSASs.

2. If an entity that has significant influence or control over the associate or joint venture becomes a first-time adopter later than the associate or joint venture, the entity that has significant influence or control over the associate or joint venture shall, in its financial statements, measure the assets and liabilities of the associate or joint venture at the same carrying amounts as in the financial statements of the associate or joint venture, after adjusting for equity accounting adjustments and for the effects of the public sector combination in which the entity that has significant influence or control over the associate or joint venture acquired significant influence of the associate or joint venture. Similarly, if an associate or joint venture becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements, it shall measure its assets and liabilities at the same amounts in both financial statements, except for consolidation adjustments.

6. EFFECTIVE DATE

This rule shall be effective for annual financial statements covering periods beginning on or after 1 January 2021.

7. REFERENCES

This accounting policy is based on the following IPSAS standards:

IPSAS 33 First – time Adoption of Accrual Basis IPSASs

IPSAS 36 Investments in Associates and Joint Ventures