national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

GRAP 36 – Investments in Associates and Joint Ventures

Effective 1 April 2021

Applies to all entities that are investors with joint control of, or significant influence over, an investee where the investment leads to the holding of a quantifiable ownership interest.

Principle: An entity with joint control of, or significant influence over, an investee accounts for its investment in an associate or joint venture using the **equity method**

EXEMPTION FROM APPLYING THE EQUITY METHOD

If the entity is a controlling entity that is exempt from preparing consolidated financial statements, as set out in GRAP 35 or if all of the following apply:

- ✓ the entity itself is a controlled entity and the information needs of users are met by its controlling entity's consolidated financial statements, and, in the case of a partially owned entity, all its other owners, have been informed about, and do not object to, the entity not applying the equity method
- ✓ the entity's debt or equity instruments are not traded in a public market
- ✓ the entity did not file, nor is it in the process of filing, its financial statements with securities commission or other regulatory organisation, for the purpose of issuing any class of instruments in a public market
- ✓ The ultimate or any intermediate controlling entity of the entity produces financial statements available for public use that comply with the Standards of GRAP, in which controlled entities are consolidated or are measured at fair value in accordance with GRAP 35

ASSOCIATE

An **associate** is an entity over which the investor has significant influence. **Significant influence** is the power to participate in financial and operating policy decisions of the investee but is not control or joint control over those policies.

SIGNIFICANT INFLUENCE

Rebuttable presumption: 20% - 50% shareholding gives rise to significant influence

Evidenced in **one or more** of the following ways:-

- ✓ Representation on the board of directors or equivalent governing body of the investee
- ✓ Participation in policy-making processes, including participation in decisions about dividends or similar distributions
- ✓ Material transactions between the entity and its investee
- ✓ Interchange of managerial personnel
- ✓ Provision of essential technical information

DISCONTINUING THE EQUITY METHOD

An entity is required to discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture as follows:

- If an investment becomes a controlled entity, the entity accounts for its investments in accordance with GRAP 105, GRAP 106, GRAP 107 and GRAP 35
- If the retained interest is a financial asset, the entity measures the retained interest at fair value or carrying value where permitted in terms of GRAP 104 and recognises any difference in value in surplus or deficit
- When the equity method is discontinued, the entity accounts for all amounts previously recognised in net assets on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities

JOINT ARRANGEMENT

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

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

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.

ISSUES

- Potential voting rights are taken into account to determine whether significant influence exists, but equity accounting is based on present ownership interest
- Financial statements of the investor and investee used for equity accounting should not differ more than 3 months in terms of reporting date
- Use of uniform accounting policies for transactions and other events in similar circumstances
- The investors' share in the investee's surplus or deficit resulting from transactions with the investee are eliminated in the equity accounted financial statements of the controlling entity
- If an investor's share of deficit of an investee exceeds its interest in the investee, discontinue recognising share of further deficits. The interest in an investee is the carrying amount of the investment in the investee under the equity method, and any long-term interests that, in substance, form part of the investor's net investment in the investee.
- If ownership interest is reduced, but equity method remains, the entity reclassifies to accumulated surplus or deficits that portion of the gain or loss that had previously been recognised in net assets relating to that reduction in ownership interest if that gain or loss would be required to be transferred directly to accumulated surplus or deficits on the disposal of the related assets or liabilities