

Urgent Issues Group

Interpretation 1001

July 2005

**Consolidated Financial
Reports in relation to
Pre-Date-of-Transition
Dual Listed Company
Arrangements**



Australian Government

**Australian Accounting
Standards Board**

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CONSOLIDATED FINANCIAL REPORTS IN RELATION TO
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UIG Interpretation 1001 *Consolidated Financial Reports in relation to Pre-Date-of-Transition Dual Listed Company Arrangements* is set out in paragraphs 1 – 18. Interpretations are listed in Australian Accounting Standard AASB 1048 *Interpretation and Application of 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.

PREFACE

Main Features of UIG Interpretation 1001

Application of this Interpretation will begin in the context of adopting all Australian equivalents to International Financial Reporting Standards. The Interpretation specifies the basis for the preparation of a consolidated general purpose financial report in relation to dual listed company arrangements effected prior to the date of transition to Australian equivalents to International Financial Reporting Standards where the parent entities under the dual listed company arrangement have exercised an election under Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* not to apply AASB 3 *Business Combinations* retrospectively to past business combinations (including the dual listed company arrangement).

Under this Interpretation, where the entities combining under the dual listed company arrangement act in substance as a single parent, consolidated financial reports are prepared by combining the financial reports of the dual listed entities.

Where parent entities under such dual listed company arrangements elect not to apply the business combinations exemption available under AASB 1 to the dual listed company arrangement, they must determine the most appropriate accounting policies to apply in presenting their financial report in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Comparison with Superseded Requirements

There were no specific requirements for the preparation of general purpose financial reports in relation to dual listed company arrangements in previous Accounting Standards or UIG Abstracts in Australia.

COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS

UIG Interpretation 1001 has no corresponding International Financial Reporting Interpretations Committee Interpretation. Entities that comply with Interpretation 1001 will simultaneously be in compliance with the following Accounting Standards in particular: IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements*.

International Public Sector Accounting Standards (IPSASs) are issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants. They do not contain specific requirements concerning dual listed company arrangements.

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DUAL LISTED COMPANY ARRANGEMENTS***

REFERENCES

Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*

Accounting Standard AASB 3 *Business Combinations*

Accounting Standard AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*

Accounting Standard AASB 127 *Consolidated and Separate Financial Statements*

Accounting Standard AASB 134 *Interim Financial Reporting*

BACKGROUND

- 1 Some legal entities listed on the Australian Stock Exchange have entered dual listed company (DLC) arrangements under which their activities are managed as a single economic entity under contractual arrangements with another company, while retaining their separate legal identities. In these cases one entity has not acquired an ownership interest in the other entity and the individual legal entities have not been combined into a new legal entity. The securities of the entities comprising the DLC are normally quoted, traded or transferred independently in different capital markets.
- 2 The contractual agreements underlying a DLC result in an economic entity in which the shareholders of the contracting companies have a common economic interest, including arrangements to ensure that all shareholders receive equivalent dividends, irrespective of the particular contracting company in which they hold shares. The existence of cross guarantees between the companies means that investors, creditors and

others should have regard to the net assets of the combined group in assessing the economic entity's financial position. In addition, in the event of liquidation, equalisation arrangements ensure equal distribution of any surplus assets to ordinary shareholders of the contracting companies.

- 3 Prior to transition to Australian equivalents to International Financial Reporting Standards (IFRSs), it was considered that the creation of a DLC did not give rise to a parent-subsidiary relationship between the entities. Consequently, consolidated financial reports typically were not prepared for the DLC economic entity in accordance with the superseded Accounting Standards AASB 1024 *Consolidated Accounts* and AAS 24 *Consolidated Financial Reports*.
- 4 AASB 3 *Business Combinations* deals with the accounting for business combinations. A business combination is defined broadly as "the bringing together of separate entities or businesses into one reporting entity" and is considered to cover DLC arrangements, such as those involving pre-existing legal entities that satisfy the definition of a business in AASB 3. However, AASB 3 contains a number of scope exclusions, one of which relates to business combinations by contract alone without the obtaining of an ownership interest (referred to as "combinations by contract alone").

ISSUE

- 5 On transition to Australian equivalents to IFRSs, no Standard directly addresses the issue of accounting for a DLC. The accounting issue is whether, under Australian equivalents to IFRSs, the consolidated financial report in respect of the group under a pre-date-of-transition DLC arrangement that applies the election available under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, paragraph 15, is prepared by combining the financial statements of the entities that have entered the contractual arrangement, that is, whether the pre-date-of-transition basis of accounting is "grandfathered". The subsequent treatment under AASB 127 *Consolidated and Separate Financial Statements* is also at issue.

CONSENSUS

- 6 A DLC arrangement effected prior to the date of transition to Australian equivalents to IFRSs is a business combination for the purpose of applying AASB 1.

- 7 At the date of transition, where dual listed entities operate in substance as a single parent entity, both listed entities shall be identified as the parent entity for the purpose of preparing consolidated financial reports.
- 8 For the purpose of applying AASB 1 at the date of transition, the consolidated financial report of each dual listed entity shall be the combined financial report of the dual listed entities, prepared on the same basis as the combined financial report for those entities immediately before adopting Australian equivalents to IFRSs, with assets and liabilities adjusted if required in accordance with AASB 1, paragraph 10.
- 9 For the purpose of applying AASB 127 subsequently, the consolidated financial report of each dual listed entity shall be the combined financial report of the dual listed entities, prepared on the same basis specified in paragraph 8.

Application

- 10 This Interpretation applies to reporting entities subject to DLC arrangements effected prior to the date of transition to Australian equivalents to IFRSs where the dual listed entities have exercised the election available under AASB 1, paragraph 15, not to apply AASB 3 retrospectively to past business combinations, including that DLC arrangement.
- 11 This Interpretation applies to annual reporting periods ending on or after 31 December 2005.
- 12 This Interpretation may be applied to annual reporting periods beginning on or after 1 January 2005 that end before 31 December 2005 (due to, for example, a change in reporting date), permitting early application only in the context of adopting all Australian equivalents to IFRSs for such periods. An entity that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001* may apply this Interpretation to such an annual reporting period when an election has been made in accordance with subsection 334(5) of the *Corporations Act* in relation to AASB 1048 *Interpretation and Application of Standards*. When an entity applies this Interpretation to such an annual reporting period, it shall disclose that fact.
- 13 The requirements specified in this Interpretation apply to the financial report where information resulting from their application is material in accordance with AASB 1031 *Materiality*.

DISCUSSION

- 14 A DLC arrangement effected prior to the date of transition to Australian equivalents to IFRSs is a business combination, and the separate legal entities which, in substance, operate as a single parent entity will be able to avail themselves of the exemption for past business combinations in AASB 1. Under this exemption, each entity is required to retain the same classification as in its previous financial report immediately before adopting Australian equivalents to IFRSs. Thus the DLC arrangement continues to be classified as a combination of entities rather than an acquisition. This means that the approach applied previously under Australian requirements is retained for the DLC arrangement. Therefore, for the purpose of applying AASB 1, the opening Australian-equivalents-to-IFRSs consolidated balance sheet of the entity is prepared on the same combined basis as the combined balance sheet for the DLC entities immediately before adopting Australian equivalents to IFRSs, with assets and liabilities adjusted if required in accordance with AASB 1, paragraph 10.
- 15 This Interpretation adopts the view that where, in substance, the entities participating in a DLC arrangement act jointly as a single parent, consolidated general purpose financial reports are prepared on the basis of a combined income statement, combined balance sheet, combined cash flow statement, combined statement of changes in equity and notes thereto in respect of the entities in the DLC arrangement. The entities in a DLC arrangement are likely to act as single parent where the contractual arrangements between the entities result in the activities of the entities being managed and operated on a unified basis. This may be indicated by the composition of the board of directors of each entity being identical or virtually identical, with the entities managed in relation to the common economic interest of the shareholders of the entities. Consistent with the combination basis of accounting adopted previously under Australian requirements, the combined balance sheet presents the combined equity of the DLC entities as equity without identifying any minority interests. The requirements of AASB 134 *Interim Financial Reporting* and this Interpretation apply where half-year financial reports are prepared.

Application

- 16 This Interpretation contains requirements for reporting entities subject to DLC arrangements effected prior to the date of transition to Australian equivalents to IFRSs that exercise the business combinations election available under AASB 1, paragraph 15, not to apply AASB 3 retrospectively to past business combinations. The Interpretation distinguishes such reporting entities that elect to apply

the AASB 1 exemption from those that elect not to apply the exemption. When the exemption is not applied, a parent entity under DLC arrangements would determine the appropriate accounting policy by applying the requirements of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* to ensure the provision of relevant and reliable information, given the scope exclusion in AASB 3 for combinations by contract alone.

- 17 Furthermore, the Interpretation does not apply to any DLC arrangements occurring on or after an entity's date of transition to Australian equivalents to IFRSs. These DLC arrangements similarly are subject to the requirements of AASB 108, given the scope exclusion in AASB 3 for combinations by contract alone.
- 18 The Interpretation also does not apply to any other arrangements, transactions or events, whether or not regarded as a business combination.