

Compiled Interpretation

Interpretation 1001

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

This compiled UIG Interpretation applies to annual reporting periods beginning on or after 1 January 2009 but before 1 July 2009. Early application is permitted. It incorporates relevant amendments made up to and including 13 December 2007.

Prepared on 12 November 2009 by the staff of the Australian Accounting Standards Board.



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UIG Interpretation 1001 *Consolidated Financial Statements in relation to Pre-Date-of-Transition Dual Listed Company Arrangements* (as amended) 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.

COMPILATION DETAILS

UIG Interpretation 1001 *Consolidated Financial Statements in relation to Pre-Date-of-Transition Dual Listed Company Arrangements as amended*

This compiled Interpretation applies to annual reporting periods beginning on or after 1 January 2009 but before 1 July 2009. It takes into account amendments up to and including 13 December 2007 and was prepared on 12 November 2009 by the staff of the Australian Accounting Standards Board (AASB).

This compilation is not a separate Interpretation issued by the AASB. Instead, it is a representation of Interpretation 1001 (July 2005) as amended by other pronouncements, which are listed in the Table below.

Table of Pronouncements

| Pronouncement | Month issued | Application date (annual reporting periods ... on or after ...) | Application, saving or transitional provisions |
|----------------------|---------------------|--|---|
| Interpretation 1001 | Jul 2005 | (ending) 31 Dec 2005 | see (a) below |
| AASB 2007-8 | Sep 2007 | (beginning) 1 Jan 2009 | see (b) below |
| AASB 2007-10 | Dec 2007 | (beginning) 1 Jan 2009 | see (b) below |

- (a) Entities may elect to apply this Interpretation to annual reporting periods beginning on or after 1 January 2005 that end before 31 December 2005.
- (b) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009, provided that AASB 101 *Presentation of Financial Statements* (September 2007) is also applied to such periods.

Table of Amendments

| Paragraph affected | How affected | By ... [paragraph] |
|---------------------------|---------------------|---------------------------|
| Title | amended | AASB 2007-10 [106] |
| 3 | amended | AASB 2007-10 [107] |
| 5 | amended | AASB 2007-10 [108] |
| 7-9 | amended | AASB 2007-10 [107] |
| 12 | amended | AASB 2007-8 [6] |
| 13 | amended | AASB 2007-8 [8] |

| Paragraph affected | How affected | By ... [paragraph] |
|---------------------------|---------------------|---------------------------------------|
| 14 | amended amended | AASB 2007-8 [6] AASB 2007-10 [107] |
| 15 | amended amended | AASB 2007-8 [6] AASB 2007-10 [107] |

COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS

UIG Interpretation 1001 *Consolidated Financial Statements in relation to Pre-Date-of-Transition Dual Listed Company Arrangements* has no corresponding International Financial Reporting Interpretations Committee Interpretation.

Entities that comply with Interpretation 1001 as amended will simultaneously be in compliance with the following Accounting Standards as amended, in particular: IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements*.

INTERPRETATION 1001

UIG Interpretation 1001 was issued in July 2005.

This compiled version of Interpretation 1001 applies to annual reporting periods beginning on or after 1 January 2009 but before 1 July 2009. It incorporates relevant amendments contained in other AASB pronouncements up to and including 13 December 2007 (see Compilation Details).

URGENT ISSUES GROUP

INTERPRETATION 1001

CONSOLIDATED FINANCIAL STATEMENTS IN RELATION TO PRE-DATE-OF-TRANSITION 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 statements 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 statements 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, are 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 statements.
- 8 For the purpose of applying AASB 1 at the date of transition, the consolidated financial statements of each dual listed entity shall be the combined financial statements of the dual listed entities, prepared on the same basis as the combined financial statements 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 statements of each dual listed entity shall be the combined financial statements 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.
[Note: For application dates of paragraphs changed or added by an amending pronouncement, see Compilation Details.]
- 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 end of the reporting period), 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 statements 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 statements 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 statement of financial position of the entity is prepared on the same combined basis as the combined statement of financial position 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 statements are prepared on the basis of a combined statement of comprehensive income, combined statement of financial position, combined statement of cash flows, 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 statement of financial position 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 statements 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.