

**Australian Accounting  
Standards Board**

**Interpretation 1002**  
December 2005

# **Post-Date-of-Transition Stapling Arrangements**



**Australian Government**

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**Australian Accounting  
Standards Board**

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ISSN 1833-2676

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AASB Interpretation 1002 *Post-Date-of-Transition Stapling Arrangements* is set out in paragraphs 1 – 16. 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 AASB Interpretation 1002

This Interpretation is applicable to annual reporting periods ending on or after 31 December 2005. Early adoption of this Interpretation is permitted for annual reporting periods beginning on or after 1 January 2005 that end before 31 December 2005.

This Interpretation applies to stapling arrangements that give rise to business combinations that are entered into after an entity's date of transition to Australian equivalents to International Financial Reporting Standards (IFRSs). Therefore, it may be applicable to stapling arrangements entered into during the comparative period or periods presented in the entity's first Australian-equivalents-to-IFRSs financial report.

When application of this Interpretation begins in the context of adopting all Australian equivalents to IFRSs, the requirements of Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, the Australian equivalent of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, must be observed. AASB 1 requires prior period information, presented as comparative information, to be restated as if the requirements of this Interpretation had always applied. This differs from previous Australian requirements where changes in accounting policies did not require the restatement of the income statement and balance sheet of the preceding period.

This Interpretation applies to stapling arrangements that give rise to business combinations when the entities under the stapling arrangements are not under common control and the arrangement does not involve one of the combining entities obtaining an ownership interest in another combining entity. The entities combining under the stapling arrangement are required to identify one of them as the acquirer and the parent under the stapling arrangements, and that parent is to prepare consolidated financial statements, in accordance with the general principles in AASB 3 *Business Combinations* and AASB 127 *Consolidated and Separate Financial Statements*. Accordingly, the identifiable assets, liabilities and contingent liabilities of the other combining entities (the acquirees) are recognised at their fair values. As a consequence of the stapling arrangement involving no acquisition consideration and no ownership interest being acquired by the combining entities:

- (a) no goodwill is recognised in relation to the stapling arrangement; and
- (b) the interests of the equity holders in the acquirees are treated as minority interests.

## **COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS**

AASB Interpretation 1002 has no corresponding International Financial Reporting Interpretations Committee Interpretation. Entities that comply with Interpretation 1002 will simultaneously be in compliance with the following Accounting Standards in particular: IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* 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 stapling arrangements.

## **AUSTRALIAN ACCOUNTING STANDARDS BOARD**

### **INTERPRETATION 1002**

#### ***POST-DATE-OF-TRANSITION STAPLING ARRANGEMENTS***

### **REFERENCES**

Accounting Standard AASB 3 *Business Combinations*

Accounting Standard AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*

Accounting Standard AASB 101 *Presentation of Financial Statements*

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

Accounting Standard AASB 127 *Consolidated and Separate Financial Statements*

### **BACKGROUND**

- 1 Some legal entities have issued equity securities that are combined with (“stapled” to) the securities issued by another legal entity by virtue of a contractual arrangement between the entities. For the purposes of this Interpretation, securities created when the equity securities of legal entities have been combined in this way are termed “stapled securities”. The stapled securities cannot be traded or transferred independently and are quoted at a single price.
- 2 The stapling of the equity securities of two or more legal entities results in those entities having equity holders in common. As such, the financial performance of an investment in a stapled security is dependent on the financial performance of all the entities whose securities are stapled. The performance of all the entities is reflected in the price of the stapled security.
- 3 Accounting Standard AASB 3 *Business Combinations* deals with the accounting for business combinations involving entities or businesses

that are not under common control. A business combination is defined broadly as “the bringing together of separate entities or businesses into one reporting entity” and is considered to capture stapling 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”). Consequently, many stapling arrangements are excluded from the scope of AASB 3. On the other hand, stapling arrangements in which one of the combining entities obtains an ownership interest in the other entity or entities are within the scope of AASB 3 and therefore the purchase method as described in AASB 3 would be relevant.

- 4 There are different views regarding how a stapling arrangement that represents a business combination by contract alone should be accounted for under Australian equivalents to IFRSs. Urgent Issues Group Interpretation 1013 *Consolidated Financial Reports in relation to Pre-Date-of-Transition Stapling Arrangements* applies only to stapling arrangements effected prior to the date of the entity’s transition to Australian equivalents to International Financial Reporting Standards (IFRSs). Concern has been expressed that, in the absence of authoritative guidance, diverse and/or unacceptable accounting practices may occur or develop in accounting for stapling arrangements that are business combinations by contract alone and not subject to either AASB 3 or UIG Interpretation 1013. This would undermine the relevance and reliability of general purpose financial reports.

## ISSUES

- 5 This Interpretation addresses the accounting for post-date-of-transition stapling arrangements that represent business combinations by contract alone between entities that are not under common control. In particular, this Interpretation addresses the following issues:
  - (a) should goodwill be recognised; and
  - (b) should the interests of the equity holders of the acquiree be treated as minority interests, even though the equity holders of the acquiree are also equity holders in the acquirer by virtue of the stapling arrangement?

## CONSENSUS

- 6 A stapling arrangement effected after the date of transition to Australian equivalents to IFRSs that is a business combination between entities that are not under common control may not involve one of the combining entities obtaining an ownership interest in another combining entity. Consistent with the requirements in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, the general principles in AASB 3 and AASB 127 *Consolidated and Separate Financial Statements* shall be applied to such a stapling arrangement.
- 7 One of the entities combining under the stapling arrangement shall be identified as the acquirer and the parent for the purpose of preparing consolidated financial statements. The other entity or entities combining under the stapling arrangement shall be identified as acquirees.
- 8 An acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria in paragraph 37 of AASB 3 shall be recognised at the acquisition date at their fair values in the consolidated financial statements, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, which shall be recognised at their fair value less costs to sell.
- 9 As the stapling arrangement does not involve one of the combining entities obtaining an ownership interest in another combining entity, no goodwill or excess of acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over acquisition cost shall be recognised in relation to the stapling arrangement.
- 10 Minority interest is defined in AASB 3 as that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent. On the basis that there is no ownership interest between the entities involved in the stapling arrangement, the net assets of a consolidated acquiree shall be identified as minority interests and presented in the consolidated balance sheet within equity, separately from the parent equity holders' equity. The profit or loss of the acquiree shall also be separately disclosed as minority interests in the profit or loss of the group. However, in accordance with AASB 101 *Presentation of Financial Statements*, the consolidated financial report shall include additional information or revised descriptions in order to

convey to the users that, although the interests of the equity holders of the acquiree are treated as minority interests, the equity holders of the acquiree are also equity holders in the acquirer by virtue of the stapling arrangement.

## Application

- 11 This Interpretation applies to:
  - (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001* and that is a reporting entity;
  - (b) general purpose financial reports of each other reporting entity; and
  - (c) financial reports that are, or are held out to be, general purpose financial reports.
- 12 This Interpretation applies to annual reporting periods ending on or after 31 December 2005.
- 13 This Interpretation may be applied to annual reporting periods beginning on or after 1 January 2005 that end before 31 December 2005, permitting early application 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* may apply this Interpretation to such annual reporting periods 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.
- 14 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

- 15 In business combinations by contract alone, none of the combining entities (as opposed to their shareholders) obtain an ownership interest in another combining entity. Such business combinations are excluded from the scope of AASB 3. Furthermore, they are distinguished from reverse acquisitions, which are not excluded from AASB 3, on the basis that a reverse acquisition involves one of the combining entities,

though not the accounting acquirer, obtaining an ownership interest in the other combining entity.

- 16 Given the scope exclusion in AASB 3 for business combinations by contract alone, the requirements in AASB 108 would be required to be applied in determining an appropriate accounting policy. Under paragraphs 10–12 of AASB 108, management would normally identify AASB 3 as the most appropriate source for the accounting policy. However, to ensure that all stapling arrangements that are business combinations between entities that are not under common control, not just those that are currently within the scope of AASB 3, are treated in a consistent manner, this Interpretation requires the parent entity in each stapling arrangement that is a business combination by contract alone to prepare consolidated financial statements in accordance with the general principles in AASB 3 and AASB 127, as set out in paragraphs 7–10 of this Interpretation.