

Compiled Interpretation

Interpretation 1002

Post-Date-of-Transition Stapling Arrangements

This compiled AASB 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.



Australian Government

**Australian Accounting
Standards Board**

Obtaining Copies of Interpretations

Compiled versions of Interpretations, original Interpretations and amending pronouncements (see Compilation Details) are available on the AASB website: www.aasb.gov.au.

Printed copies of original Interpretations and amending pronouncements are available for purchase by contacting:

The Customer Service Officer
Australian Accounting Standards Board
Level 7
600 Bourke Street
Melbourne Victoria
AUSTRALIA

Postal address:
PO Box 204
Collins Street West Victoria 8007
AUSTRALIA

Phone: (03) 9617 7637
Fax: (03) 9617 7608
E-mail: publications@aaab.gov.au
Website: www.aasb.gov.au

Other Enquiries

Phone: (03) 9617 7600
Fax: (03) 9617 7608
E-mail: standard@aaab.gov.au

COPYRIGHT

© 2009 Commonwealth of Australia

This work is copyright. Reproduction in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source. Apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission from the Australian Accounting Standards Board. Requests and enquiries concerning reproduction and rights for commercial purposes should be addressed to The Director of Finance and Administration, Australian Accounting Standards Board, PO Box 204, Collins Street West, Victoria 8007.

CONTENTS

COMPILATION DETAILS

COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS

AASB INTERPRETATION 1002

POST-DATE-OF-TRANSITION STAPLING ARRANGEMENTS

	<i>Paragraphs</i>
References	
Background	1 – 4
Issues	5
Consensus	6 – 10
Application	11 – 14
Discussion	15 – 16

AASB Interpretation 1002 *Post-Date-of-Transition Stapling Arrangements* (as amended) 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.

COMPILATION DETAILS

AASB Interpretation 1002 *Post-Date-of-Transition Stapling 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 1002 (December 2005) as amended by other pronouncements, which are listed in the Table below.

Table of Pronouncements

Pronouncement	Month issued	Application date (<i>annual reporting periods ... on or after ...</i>)	Application, saving or transitional provisions
Interpretation 1002	Dec 2005	(<i>ending</i>) 31 Dec 2005	see (a) below
AASB 2007-8	Sep 2007	(<i>beginning</i>) 1 Jan 2009	see (b) below
AASB 2007-10	Dec 2007	(<i>beginning</i>) 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]
2	amended	AASB 2007-8 [6]
4	amended	AASB 2007-10 [109]
5	amended	AASB 2007-8 [6]
10	amended amended	AASB 2007-8 [6] AASB 2007-10 [109]
11	amended amended	AASB 2007-8 [7] AASB 2007-10 [109]
14	amended	AASB 2007-8 [8]

COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS

AASB Interpretation 1002 *Post-Date-of-Transition Stapling Arrangements* has no corresponding International Financial Reporting Interpretations Committee Interpretation.

Entities that comply with Interpretation 1002 as amended will simultaneously be in compliance with the following Accounting Standards as amended, in particular: IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and IAS 27 *Consolidated and Separate Financial Statements*.

INTERPRETATION 1002

AASB Interpretation 1002 was issued in December 2005.

This compiled version of Interpretation 1002 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).

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 owners 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 Statements 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 statements.

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 owners of the acquiree be treated as minority interests, even though the owners of the acquiree are also owners 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 statement of financial position within

equity, separately from the parent owners' 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 statements shall include additional information or revised descriptions in order to convey to the users that, although the interests of the owners of the acquiree are treated as minority interests, the owners of the acquiree are also owners 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 statements of each other reporting entity; and
 - (c) financial statements that are, or are held out to be, general purpose financial statements.
- 12 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.]
- 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 statements 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.