

Urgent Issues Group

Interpretation 1013

April 2005

Consolidated Financial Reports in relation to Pre-Date-of-Transition Stapling Arrangements



Australian Government

**Australian Accounting
Standards Board**

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PREFACE

Main Features of UIG Interpretation 1013

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 stapling arrangements effected prior to the date of transition to Australian equivalents to International Financial Reporting Standards where:

- (a) the parent entity under the stapling arrangement has exercised an election under 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 stapling); and
- (b) UIG Abstract 13 *The Presentation of the Financial Report of Entities Whose Securities are "Stapled"* was previously applied in respect of the stapling arrangement.

The entities combining under the stapling arrangement are required to identify one of them as the parent for the purpose of preparing consolidated financial reports by combining the financial reports of the stapled entities.

Where parent entities under such stapling arrangements elect not to apply the business combinations exemption available under AASB 1 to the stapling, 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Comparison with Superseded Requirements

UIG Interpretation 1013 supersedes Abstract 13. The Abstract contained similar requirements for the preparation of a general purpose financial report that combined the financial reports of the individual entities, or groups, whose securities were stapled in accordance with certain requirements of AASB 1024 *Consolidated Accounts* or AAS 24 *Consolidated Financial Reports* and with other Australian Accounting Standards. However, Abstract 13 also prescribed certain disclosure requirements and addressed concise financial reports. Furthermore, this Interpretation requires one of the combining entities to be identified as the parent under the stapling arrangement.

URGENT ISSUES GROUP
INTERPRETATION 1013
***CONSOLIDATED FINANCIAL REPORTS IN
RELATION TO PRE-DATE-OF-TRANSITION
STAPLING ARRANGEMENTS***

Interpretation 1013 is set out in paragraphs 1 to 21.

ISSUE

1. Some legal entities listed on the Australian Stock Exchange have issued equity securities which are combined with (“stapled” to) the securities issued by another legal entity. In these cases one entity has not acquired, and does not control, the other entity and the individual legal entities have not been combined into a new legal entity. 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. Prior to transition to Australian equivalents to International Financial Reporting Standards (IFRSs), it was considered that “stapling” the securities of two or more legal entities did not necessarily give rise to a parent-subsidary relationship between the entities. Consequently, consolidated financial reports typically were not prepared for entities with stapled securities in accordance with the superseded Accounting Standards AASB 1024 *Consolidated Accounts* and AAS 24 *Consolidated Financial Reports*.
4. In the absence of a parent-subsidary relationship, UIG Abstract 13 *The Presentation of the Financial Report of Entities Whose Securities are “Stapled”* provided that when the equity securities of two or more legal entities were issued as a “stapled security”, a reporting entity was

created in certain specified circumstances. Further, it required such a reporting entity to prepare a general purpose financial report that combined the financial reports of the individual entities whose securities were stapled by applying certain requirements of AASB 1024 and AAS 24 and other Australian Accounting Standards. Abstract 13 dealt only with those cases where the stapled securities were listed on a stock exchange.

5. 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 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 a controlling ownership interest in the other entity or entities are within the scope of AASB 3 and therefore the purchase method in AASB 3 would be relevant.
6. The accounting issue is whether, under Australian equivalents to IFRSs, the consolidated financial report of a parent under a pre-date-of-transition stapling arrangement that exercises 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 whose securities have been stapled. The subsequent treatment under AASB 127 *Consolidated and Separate Financial Statements* is also at issue.

CONSENSUS

7. **A stapling arrangement effected prior to the date of transition to Australian equivalents to IFRSs is a business combination for the purpose of applying AASB 1.**
8. **At the date of transition, one of the combining entities shall be identified as the parent for the purpose of preparing consolidated financial reports.**
9. **For the purpose of applying AASB 1 at the date of transition, the consolidated financial report of the parent under the stapling arrangement shall be the combined financial report of the entities whose securities are stapled, 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.

10. For the purpose of applying AASB 127 subsequently, the consolidated financial report of the parent under the stapling arrangement shall be the combined financial report of the entities whose securities are stapled, prepared on the same basis specified in paragraph 9.

Application

11. This Interpretation applies to reporting entities subject to stapling arrangements effected prior to the date of transition to Australian equivalents to IFRSs where:
 - (a) the parent under the stapling arrangement has exercised the election available under AASB 1, paragraph 15, not to apply AASB 3 retrospectively to past business combinations, including that stapling arrangement; and
 - (b) UIG Abstract 13 was previously applied in respect of the stapling arrangement.
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 (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.
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*.

15. **When applied or operative, this Interpretation supersedes Abstract 13 *The Presentation of the Financial Report of Entities Whose Securities are “Stapled”*, as issued in May 2000.**
16. **Abstract 13 has been withdrawn with effect for annual reporting periods beginning on or after 1 January 2005.**

DISCUSSION

17. A stapling arrangement effected prior to the date of transition to Australian equivalents to IFRSs is a business combination, and the combining entity identified as (or, if necessary, deemed to be) the parent will be able to avail itself of the exemption for past business combinations in AASB 1. Under this exemption, the entity is required to retain the same classification as in its previous financial report immediately before adopting Australian equivalents to IFRSs. Thus the stapling arrangement continues to be classified as a combination of entities rather than an acquisition. This means that the approach previously set out in Abstract 13 is retained for the stapling 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 stapled entities immediately before adopting Australian equivalents to IFRSs, with assets and liabilities adjusted if required in accordance with AASB 1, paragraph 10.
18. This Interpretation requires entities subject to a stapling arrangement to determine a parent under the stapling arrangement, and that parent to prepare consolidated general purpose financial reports 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 whose securities are stapled. Consistent with the combination basis under UIG Abstract 13, the combined balance sheet presents the combined equity of the stapled 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

19. This Interpretation contains requirements for reporting entities subject to certain stapling 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 stapling 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.

20. Furthermore, the Interpretation does not apply to stapling arrangements occurring on or after an entity's date of transition to Australian equivalents to IFRSs. These stapling arrangements similarly are subject to the requirements of AASB 108, given the scope exclusion in AASB 3 for combinations by contract alone.
21. The Interpretation also does not apply to those arrangements generally described as dual listed entities.

REFERENCES

Australia

The Urgent Issues Group discussed Issues Paper 04/3 “Revision of Various UIG Abstracts for 2005” in relation to this Interpretation at meetings on 10 June and 25 November 2004 and 10 February and 22 March 2005. In developing the superseded revised Abstract, the UIG discussed Issue Summary 00/3 “Concise Financial Reports for Entities with Stapled Securities” at its meeting on 23 March 2000.

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*

International Accounting Standards Board

International Financial Reporting Standard IFRS 1 *First-time Adoption of International Financial Reporting Standards*

International Financial Reporting Standard IFRS 3 *Business Combinations*

International Accounting Standard IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

International Accounting Standard IAS 27 *Consolidated and Separate Financial Statements*

International Accounting Standard IAS 34 *Interim Financial Reporting*