

Reporting Update

October 2013, 13RU-013



Financial reports of stapled entities

On 11 October 2013, ASIC released Consultation Paper 217 *Presentation of financial statements by stapled entities* (CP 217). A stapled entity is an entity whose securities must be transferred together with a security of one or more other entities.

CP 217 proposes that ASIC will issue a class order allowing stapled entities to present combined (not consolidated) financial statements covering all of the entities whose securities are stapled. Combined financial statements are a simple aggregation of assets, liabilities etc. with inter-entity balances eliminated. The stapled group will not be able to claim IFRS compliance in the combined financial statements.

Potentially, for some stapled groups this will require an additional set of financial statements to be prepared.

CP 217 is open for comment until 30 November 2013.

KEY POINTS

- Class order will allow stapled entities to present combined financial statements
- Audit or review required
- Not IFRS compliant
- Still required to prepare financial statements as required by Accounting Standards

ACTION POINTS

- Submit comments to ASIC by 30 November 2013

Background

In CP 217 ASIC express a view that with the introduction of AASB 10 *Consolidated Financial Statements* (applicable 1 January 2013) there may no longer be a basis within Accounting Standards to allow the preparation of consolidated financial statements for a stapled group.

This view considers the legal meaning of the terms investor and investee, and whether the investor has control over the investee (i.e. power, exposure to variable returns, and the ability to use its power over the investee to affect the amount of the investor's returns). Further, under the view in CP 217, AASB 10 appears to indicate that an entity is only controlled and consolidated where there is ownership or other financial interests in the entity. This view affects a typical stapled group as none of the stapled entities will have an investment or 'in substance' investment in any of the other stapled entities. As a consequence, ASIC argues that in a stapled group of two entities that potentially neither entity would control the other under AASB 10.

On the basis of the above view that under AASB 10 control is not present, ASIC considers that combined financial statements for the stapled group would provide useful information for the owners and other stakeholders in the stapled group. Consequently, in CP 217 ASIC intends to issue a class order to allow the preparation of combined financial statements given its view that they are not required by Accounting Standards nor are permitted under s295(2) and s303(2) of the Corporations Act.

What is ASIC proposing?

The proposed class order would allow stapled groups to prepare and present combined financial statements. Further aspects of CP 217 include the following:

- require the combined financial statements to be subject to audit, or review by the auditor, as a condition of the proposed relief
- include a statement to the effect that combined financial statements covering all entities in a stapled arrangement are necessary to meet the 'true and fair view' requirement with respect to the financial position and performance of each of the stapled entities
- continue to provide relief to allow all stapled entities in a stapled group to present financial statements together in a single financial report.

The proposals will not relieve entities in a stapled group from presenting financial statements required by Accounting Standards.

KPMG Comment

KPMG notes that the technical position expressed by ASIC in CP 217 is not the only technical position on the control issue under AASB 10. We are currently evaluating all technical positions to formulate our response to this Consultation Paper.

If CP 217 progresses to a Class Order it would allow the presentation of a combined set of financial statements for most stapled groups. However, these financial statements would require an audit or review and would not be IFRS compliant. There will also be some further practical implementation issues if entities are forced to adopt the proposals in CP 217 which require some thought.

We would encourage interested preparers and users of stapled group financial statements to provide feedback to ASIC on the proposals contained in CP 217. Please contact your local KPMG partner to obtain further detail on KPMG's feedback to the proposals.