IFRS AT A GLANCE

SIC-12 *Consolidation – Special Purpose Entities*

BDO

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Superseded by IFRS 10 *Consolidated Financial Statements* for periods beginning on or after 1 January 2013

ISSUE

- An entity may be created to accomplish a narrow and well-defined objective (e.g., to effect a lease, research and development activities or a securitisation of financial assets)
- Such a special purpose entity (SPE) may take the form of a corporation, trust, partnership or unincorporated entity
- SPEs are often created with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their governing board, trustee or management over the operations of the SPE
- Frequently, these provisions specify that the policy guiding the ongoing activities of the SPE cannot be modified, other than perhaps by its creator or sponsor (i.e., the SPEs operate on so called 'autopilot').

- The issue is under what circumstances an entity shall consolidate a SPE
- An entity that engages in transactions with a SPE (frequently the creator or sponsor) may in substance control the SPE
- A beneficial Interest in the SPE may provide the holder with a fixed or stated rate of return, while others give the holder rights or access to other future economic benefits of the SPE's activities. In most cases, the creator or sponsor retains a significant beneficial interest in the SPE's activities, even though it may own little or none of the SPE entity
- IAS 27 *Consolidated and Separate Financial Statements* requires the consolidation of entities that are controlled by the reporting entity (however IAS 27 does not provide explicit guidance on the consolidation of SPEs)
- This interpretation does not apply to: post-employment benefit plans or other long term employee benefit plans to which IAS 19 *Employee Benefits* applies
- A transfer of assets from an entity to an SPE may qualify as a sale by that entity. Even if the transfer does qualify as a sale, the provisions of IAS 27 and this Interpretation do not address the circumstances in which sale treatment applies for the entity or the elimination of the consequences of such a sale upon consolidation.

CONSENSUS

- A SPE is required to be consolidated when the substance of the relationship between an entity and the SPE indicates that the SPE is controlled by that entity
- In the context of a SPE, control may arise through the predetermination of the activities of the SPE or otherwise. The application of the control concept requires, in each case, judgement in the context of all relevant factors
- The following circumstances, for example, may indicate a relationship in which an entity controls a SPE and consequently should consolidate the SPE:
  - In substance, the activities of the SPE are being conducted on behalf of the entity according to its specific business needs so that the entity obtains benefits from the SPE's operation
  - In substance, the entity has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot' mechanism, the entity has delegated these decision making powers
  - In substance, the entity has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE.
- In substance, the entity retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

For further information about how BDO can assist you and your organisation, please get in touch with one of our key contacts listed below. Alternatively, please visit www.bdointernational.com/Services/Audit/IFRS/IFRS Country Leaders where you can find full lists of regional and country contacts.

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