IFRS AT A GLANCE
SIC-12 Consolidation - Special Purpose Entities
SIC-12 Consolidation - Special Purpose Entities

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’).

CONSENSUS

- 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.

- 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.

Europe
Caroline Allouët  France  caroline.allouet@bdo.fr
Jens Freiberg  Germany  jens.freiberg@bdo.de
Teresa Morahan  Ireland  tmorahan@bdo.ie
Ehud Greenberg  Israel  ehudg@bdo.co.il
Ruud Vergoossen  Netherlands  ruud.vergoossen@bdo.nl
Reidar Jensen  Norway  reidar.jensen@bdo.no
Maria Sukonkina  Russia  m.sukonkina@bdo.ru
René Krügel  Switzerland  rene.kruegel@bdo.ch
Brian Creighton  United Kingdom  brian.creighton@bdo.co.uk

Asia Pacific
Wayne Basford  Australia  wayne.basford@bdo.com.au
Zheng Xian Hong  China  zheng.xianhong@bdo.com.cn
Fanny Hsiang  Hong Kong  fannyhsiang@bdo.com.hk
Khoon Yeow Tan  Malaysia  tanky@bdo.my

Latin America
Marcelo Canetti  Argentina  mcanetti@bdoargentina.com
Luis Pierrend  Peru  lpierrrend@bdo.com.pe
Ernesto Bartesaghi  Uruguay  ebartesaghi@bdo.com.uy

North America & Caribbean
Armand Capisciolto  Canada  acapisciolto@bdo.ca
Wendy Hambleton  USA  whambleton@bdo.com

Middle East
Arshad Gadit  Bahrain  arshad.gadit@bdo.bh
Antoine Gholam  Lebanon  agholam@bdo-lb.com

Sub Saharan Africa
Nigel Griffith  South Africa  ngriffith@bdo.co.za

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact your respective BDO member firm to discuss these matters in the context of your particular circumstances. Neither BDO IFR Advisory Limited, Brussels Worldwide Services BVBA, BDO International Limited and/or BDO member firms, nor their respective partners, employees and/or agents accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

Service provision within the international BDO network of independent member firms (‘the BDO network’) in connection with IFRS (comprising International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the IFRS Interpretations Committee and the former Standing Interpretations Committee), and other documents, as issued by the International Accounting Standards Board, is provided by BDO IFR Advisory Limited, a UK registered company limited by guarantee. Service provision within the BDO network is coordinated by Brussels Worldwide Services BVBA, a limited liability company incorporated in Belgium with its statutory seat in Brussels.

Each of BDO International Limited (the governing entity of the BDO network), Brussels Worldwide Services BVBA, BDO IFR Advisory Limited and the member firms is a separate legal entity and has no liability for another such entity’s acts or omissions. Nothing in the arrangements or rules of the BDO network shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide Services BVBA, BDO IFR Advisory Limited and/or the member firms of the BDO network.

BDO is the brand name for the BDO network and for each of the BDO member firms.

© 2016 BDO IFR Advisory Limited, a UK registered company limited by guarantee. All rights reserved.

www.bdointernational.com